United Nations

United Nations Development Programme

Financial report and audited financial statements

for the year ended 31 December 2017

and

Report of the Board of Auditors

General Assembly
Official Records
Seventy-third Session
Supplement No. 5A

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Report of the Board of Auditors

United Nations • New York, 2018

Note

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Letters of transmittal and certification

Letter dated 29 March 2018 from the Administrator, the Assistant Secretary-General and Director, Bureau for Management Services, and the Chief Finance Officer and Comptroller of the United Nations Development Programme addressed to the Chair of the Board of Auditors

Pursuant to financial regulation 26.01, we have the honour to submit the financial statements of the United Nations Development Programme (UNDP) for the year ended 31 December 2017, which we hereby approve.

Copies of these financial statements are also being transmitted to the Advisory Committee on Administrative and Budgetary Questions.

We, the undersigned, acknowledge that:

- The management is responsible for the integrity and objectivity of the financial information included in these financial statements.
- The financial statements have been prepared in accordance with the International Public Sector Accounting Standards (IPSAS) and include certain amounts that are based on management's best estimates and judgments.
- Accounting procedures and related systems of internal control provide reasonable assurance that assets are safeguarded, that the books and records properly reflect all transactions and that, overall, policies and procedures are implemented with an appropriate segregation of duties. UNDP internal auditors continually review the accounting and control systems. Further improvements are being implemented in specific areas.
- The management provided the Board of Auditors and UNDP internal auditors with full and free access to all accounting and financial records.
- The recommendations of the Board of Auditors and UNDP internal auditors are reviewed by the management. Control procedures have been revised or are in the process of being revised, as appropriate, in response to those recommendations.

We each certify that, to the best of our knowledge, information and belief, all material transactions have been properly charged in the accounting records and are properly reflected in the appended financial statements.

(*Signed*) Achim **Steiner**
Administrator

(*Signed*) Susan **McDade**
Assistant Secretary-General and Director
Bureau for Management Services

(*Signed*) Darshak **Shah**
Chief Finance Officer and Comptroller
Bureau for Management Services

Letter dated 24 July 2018 from the Chair of the Board of Auditors addressed to the President of the General Assembly

I have the honour to transmit to you the report of the Board of Auditors on the financial statements of the United Nations Development Programme for the year ended 31 December 2017.

(*Signed*) Rajiv **Mehrishi**
Comptroller and Auditor General of India
Chair of the Board of Auditors

Chapter I

Report of the Board of Auditors on the financial statements: audit opinion

Opinion

We have audited the accompanying financial statements of the United Nations Development Programme (UNDP), which comprise the statement of financial position (statement I) as at 31 December 2017 and the statement of financial performance (statement II), the statement of changes in net assets/equity (statement III), the cash flow statement (statement IV) and the statement of comparison of budget and actual amounts (statement V) for the year then ended, as well as the notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of UNDP as at 31 December 2017, and its financial performance and cash flows for the year then ended, in accordance with the International Public Sector Accounting Standards (IPSAS).

Basis for opinion

We conducted our audit in accordance with the International Standards on Auditing. Our responsibilities under those standards are described in the section below entitled "Auditor's responsibilities for the audit of the financial statements". We are independent of UNDP, in accordance with the ethical requirements relevant to our audit of the financial statements, and we have fulfilled our other ethical responsibilities in accordance with those requirements. We believe that the audit evidence that we have obtained is appropriate and sufficient to provide a basis for our opinion.

Information other than the financial statements and the auditor's report thereon

The Administrator is responsible for the other information, which comprises the financial report for the year ended 31 December 2017, contained in chapter III below, but does not include the financial statements and our auditor's report thereon.

Our opinion on the financial statements does not cover the other information and we do not express any form of assurance thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If, on the basis of the work that we have performed, we conclude that there is a material misstatement in the other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of management and those charged with governance for the financial statements

The Administrator is responsible for the preparation and fair presentation of the financial statements in accordance with IPSAS and for such internal control as management determines to be necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is responsible for assessing the ability of UNDP to continue as a going concern, disclosing, as applicable, matters related to the going concern and using the going-concern basis of accounting unless management intends either to liquidate UNDP or to cease operations, or has no realistic alternative but to do so. Those charged with governance are responsible for overseeing the financial reporting process of UNDP.

Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance as to whether the financial statements as a whole are free from material misstatements, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with the International Standards on Auditing will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of those financial statements.

As part of an audit in accordance with the International Standards on Auditing, we exercise professional judgment and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement in the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is appropriate and sufficient to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than the risk of not detecting one resulting from error, as fraud may involve collusion, forgery, intentional omission, misrepresentation or the overriding of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the internal control of UNDP.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.

- Draw conclusions as to the appropriateness of management's use of the going-concern basis of accounting and, on the basis of the audit evidence obtained, whether a material uncertainty exists in relation to events or conditions that may cast significant doubt on the ability of UNDP to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause UNDP to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

Report on other legal and regulatory requirements

Furthermore, in our opinion, the transactions of UNDP that have come to our notice or that we have tested as part of our audit have, in all significant respects, been in accordance with the Financial Regulations and Rules of the United Nations and legislative authority.

In accordance with article VII of the Financial Regulations and Rules of the United Nations, we have also issued a long-form report on our audit of UNDP.

(*Signed*) Rajiv **Mehrishi**
Comptroller and Auditor General of India
Chair of the Board of Auditors

(*Signed*) Mussa Juma **Assad**
Controller and Auditor General of the
United Republic of Tanzania
(Lead Auditor)

(*Signed*) Kay **Scheller**
President of the German Federal Court of Auditors

24 July 2018

Chapter II

Long-form report of the Board of Auditors

Summary

The United Nations Development Programme (UNDP) was established in 1965 by the General Assembly. UNDP partners with entities and people at all levels of society to help build nations that can withstand crisis and drive and sustain growth that improves the quality of life for everyone. UNDP has its headquarters in New York, but works primarily through its offices in 170 countries and territories. UNDP provides a global perspective and local insight to help empower lives and build resilient nations.

The Board of Auditors has audited the financial statements and reviewed the operations of UNDP for the year ended 31 December 2017. The audit was carried out at headquarters in New York and through visits to the country offices in Egypt, Malawi, Paraguay, South Africa, Turkey and Turkmenistan.

Scope of the report

The report covers matters that, in the opinion of the Board, should be brought to the attention of the General Assembly and has been discussed with UNDP management, whose views have been appropriately reflected.

The audit was conducted primarily to enable the Board to form an opinion as to whether the financial statements presented fairly the financial position of UNDP as at 31 December 2017 and its financial performance and cash flows for the financial year then ended, in accordance with the International Public Sector Accounting Standards (IPSAS). The audit included a general review of financial systems and internal controls and a test examination of the accounting records and other supporting evidence to the extent that the Board considered necessary to form an opinion on the financial statements.

The Board also reviewed UNDP operations under regulation 7.5 of the Financial Regulations and Rules of the United Nations. This requires the Board to make observations with respect to the efficiency of the financial procedures, the accounting system, internal financial controls and, in general, the administration and management of UNDP operations. The report also includes commentary on the status of implementation of recommendations of previous years.

Audit opinion

The Board has issued an unqualified audit opinion on the financial statements of UNDP for the period under review, as reflected in chapter I of the present report.

Overall conclusion

The Board did not identify significant deficiencies in the preparation and presentation of the financial statements. However, the Board continues to note issues similar to those reported in previous years, including delays in certification of the combined delivery reports and shortcomings in project oversight, monitoring and reviews. Other deficiencies include non-performance of macroassessments and microassessments for the harmonized approach to cash transfers, delays in evaluation of service contracts, deficiencies in management of Atlas electronic fund transfers, lack of testing of the disaster recovery and business continuity plans, control deficiencies in information security governance, and lack of an alternative recovery site and an off-site storage facility. The Board urges management to prepare an action

plan to address the recurring shortcomings in order to improve the operations of the organization.

Key findings

The Board highlights the following key findings:

Programme and project management

United Nations Development Assistance Frameworks and country programme documents

Paragraph 7 of the Programme and Operations Policies and Procedures on implementing programmes, concerning annual programme reviews, requires a systematic review of UNDP country programmes as part of the annual review process under the United Nations Development Assistance Framework. However, the Board noted instances of non-compliance with the requirement at three out of six visited country offices. For example, at the Paraguay country office (with a programme cycle of 2015–2019), the monitoring and evaluation plan under the Development Assistance Framework was yet to be developed, periodic reviews were not done and annual reviews of the Framework were not performed for 2015 and 2016. At the South Africa country office, the annual reviews of the Development Assistance Framework[1] and the country programme document were not done from 2013 to 2015. The Development Assistance Framework midterm evaluation, which was supposed to be conducted in 2014 at the Egypt country office under the Framework document, had not been conducted as at November 2017. The Board considers that monitoring and evaluation of the Development Assistance Framework and the country programme document are crucial to enable the United Nations country team and partners to make timely decisions, based on evidence of evaluation results, that will enhance subsequent performance throughout the programme cycle.

Certification of combined delivery reports

In its previous reports (A/70/5/Add.1, A/71/5/Add.1 and A/72/5/Add.1) the Board noted delays in signing the combined delivery reports. In the current audit, the Board continued to note similar cases where the signing and uploading of combined delivery reports in the corporate planning system were delayed in the first and second quarter for 68 out of 87 reviewed projects. The Board also noted that the combined delivery reports for the third quarter for 86 projects, which were supposed to be sent to implementing partners by 15 October 2017, had not been run and sent to the partners by 10 November 2017. This is contrary to the Programme and Operations Policies and Procedures on combined delivery reports, which furthermore require uploading of the certified reports, and follow-up request when no response is received from the implementing partners, in the combined delivery reports library no later than 45 calendar days after the end of the respective quarters. The Board was informed that the reports will be signed after receiving notification from headquarters on the closure and clearance of the general ledger to generate combined delivery reports. Management also confirmed that they will make efforts to upload into the corporate planning system the follow-up actions taken with regard to the implementing partners.

Project oversight, monitoring and reviews

In its previous reports (A/70/5/Add.1, A/71/5/Add.1 and A/72/5/Add.1) the Board noted that information was not adequately updated in Atlas regarding projects risks, issues and monitoring logs. In the current audit, the Board continued to note similar weaknesses. For instance, at five of the six visited country offices, project risks, issues and monitoring logs for 74 (52 per cent) out of 141 sampled projects were either not updated or only updated late in 2017. Also, two of the country offices had not yet conducted project board meetings for a total of 13 projects.

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[1] In South Africa, the United Nations Development Assistance Framework is called a strategic cooperation framework.

Harmonized approach to cash transfers framework[2]

Performance of working group on harmonized approach to cash transfers

Item 6.13 of the United Nations Development Group harmonized approach to cash transfers framework encourages the establishment of a working group composed of operations and programme staff from each participating agency. The working group is responsible for planning and facilitating implementation of the framework in the country. The Board found that the working groups at the Paraguay, South Africa, Turkey and Turkmenistan country offices were not active and they did not perform the intended activities in 2017.

Harmonized approach to cash transfers macro-assessments

While the South Africa country office is in the fifth year of its programme cycle, the Board found that the country office had not been conducting macroassessments for the harmonized approach to cash transfers. Management explained that they relied on the 2014 European Union report on public expenditure and financial accountability for South Africa. However, item 20 of the UNDP Programme and Operations Policies and Procedures on the harmonized approach to cash transfers explains that the macroassessment for the harmonized approach may leverage available assessments conducted by the World Bank and other institutions, but not use them as a substitute for the macroassessment required under the harmonized approach framework, which includes a specific risk-consideration checklist.

Harmonized approach to cash transfers microassessments

The Egypt country office had not performed microassessments for any of its 18 implementing partners for the current programme cycle of 2013–2017. Also, no microassessments were performed for the implementing partners in the preceding programme cycle. The Paraguay country office, with a programme cycle of 2015–2019, performed microassessments of seven out of 10 implementing partners after starting implementation of the projects.

Human resources management

Evaluation of service contracts

From its review of 47 service contracts in three country offices (Malawi, Paraguay and South Africa), the Board noted delays in evaluation of service contracts. Of these service contracts, evaluations of 15 (32 per cent) were performed within 1 to 26 days before expiration of the contracts and evaluations of 7 (15 per cent) were performed after expiration of the contracts, while the evaluations of 12 service contracts (25 per cent) were not performed at all. This practice is not in line with item 43 (g) of the Programme and Operations Policies and Procedures on human resources management concerning service contracts, which requires the evaluation of service contract holders to be completed ideally one month before the expiration of the contract. Management explained that in some cases evaluations were done on time, but the signing of the reports was delayed because of several factors, such as absence of the respective implementing partners' officers and inadequate monitoring of the quality and timeliness of the evaluations.

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[2] The harmonized approach to cash transfers framework establishes common principles and processes for managing cash transfers among United Nations agencies that have adopted the harmonized approach across all countries and operational contexts.

Management of staff annual leave

The UNDP Programme and Operations Policies and Procedures, in the section on annual leave, explain that annual leave is granted by UNDP to provide staff members with periods of time off from work at full pay for personal reasons and for purposes of health, rest and recreation. At six visited country offices, the Board noted that 76 staff had accumulated leave balances of periods ranging from 60.5 to 90 days, which is more than the allowed carry over balance of 60 days as at 31 March 2018. Also, leave balances of periods ranging from half a day to 30 days for a total of 76 staff were forfeited in these country offices as at 31 March 2018.

Funding policy for end-of-service liabilities and studies for asset and liability management

In 2017, the absolute value of funding available for after-service health insurance increased to $654.1 million from $563.1 million recorded in 2016, while the funded ratio of the after-service health insurance liability decreased to 50 per cent in 2017 (56 per cent in 2016). UNDP conducted its last asset and liability management study in 2014 but had not been conducting periodic studies. The Board considers that such studies would provide information on the appropriateness of the funding plan and other valuation assumptions to be adopted so as to ensure that the funding level remains relevant in the respective year.

Information and communications technology

Testing of disaster recovery plan and business continuity plan

Paragraph 56 of the UNDP information security policy requires appropriate backup arrangements, including annual testing, to be implemented and maintained to protect information and software and to ensure that all critical information assets and processes can be recovered if required for any reason. At the South Africa country office, while management indicated that the business continuity plan was last tested on 25 April 2017, they were unable to provide test reports. In addition, the disaster recovery plan was not tested in 2017 and there was no evidence to indicate when the last test was conducted. Management explained that testing of the plans will be conducted after completing the renovations of the recovery site at the United Nations Children's Fund (UNICEF). The Egypt country office tested the disaster recovery and business continuity plans in the course of the Board's audit in November 2017. Before that, the latest disaster recovery plan test was in August 2016 for Internet connectivity, while the latest test for restoration of the active directory was in February 2015. The business continuity plan was tested only once, during its formulation in 2009. At the Malawi country office, the business continuity plan was not approved and the disaster recovery plan had not been prepared. Management agreed to approve the business continuity plan and to prepare the disaster recovery plan to reflect the current operating environment.

Alternative recovery site and off-site storage facility

Paragraphs 19–21 of the information and communications technology disaster recovery standards require the country office to have a formal off-site storage arrangement with documented procedures on depositing and withdrawing backup media, spare equipment and other information that facilitates recovery. A reasonable level of protection against unauthorized access and tampering must be provided for the items deposited in off-site storage. The South Africa and Malawi country offices did not have recovery sites, but the South Africa office has initiated discussion with UNICEF on the provision of off-site storage. In Malawi, the country office had an informal agreement with UNICEF for provision of off-site storage, but there was no signed contract to enforce accountability. Management explained that after discussion with UNDP, UNICEF had agreed to renovate the server room and sign a formal agreement with UNDP for an off-site storage facility.

Recommendations

The main recommendations of the Board are that UNDP:

United Nations Development Assistance Framework and country programme document

(a) **Ensure: (i) that the Resident Coordinator Office in the Paraguay country office liaise with the United Nations country team and the implementing partners to develop a United Nations Development Assistance Framework monitoring and evaluation plan to cover the remaining period of the 2015–2019 programme cycle; and (ii) that the South Africa and Egypt country offices continue to liaise with the key counterparts, consisting of the implementing partners and the United Nations country team, to ensure that Development Assistance Framework and country programme document midterm and annual reviews are completed on time;**

Certification of combined delivery reports

(b) **At the Paraguay, South Africa, Egypt, Turkmenistan and Malawi country offices: (i) continue consultations with implementing partners such that combined delivery reports are signed on time by UNDP and the implementing partners in compliance with the Programme and Operations Policies and Procedures: (ii) ensure that follow-up requests to the implementing partners are conducted on time and evidence of follow-up actions are uploaded to the combined delivery report library in the corporate planning system; and (iii) certify the combined delivery reports on time when implementing partners are not responding after a reasonably extended period;**

Project oversight, motoring and reviews

(c) **At the Malawi, Paraguay, Egypt, South Africa and Turkey country offices, review and update project risks, issues and monitoring logs and document the information in Atlas on time as the primary source of information about the projects;**

Performance of working groups on the harmonized approach to cash transfers

(d) **At the Turkmenistan, South Africa, Turkey and Paraguay country offices, ensure that working groups on the harmonized approach to cash transfers are active and perform their duties to facilitate planning and implementation of the harmonized approach to cash transfers framework in the respective countries through regular meetings and activities;**

Harmonized approach to cash transfers macroassessments

(e) **At the South Africa country office, use the public expenditure and financial accountability reports as a source of information and liaise with other United Nations agencies to conduct harmonized approach to cash transfers macroassessments to align with the country office programme cycles as required by the Programme and Operations Policies and Procedures on the harmonized**

approach to cash transfers and the United Nations Development Group harmonized approach to cash transfers framework;

Harmonized approach to cash transfers microassessments

(f) **At the Paraguay and Egypt country offices, conduct harmonized approach to cash transfers microassessments of implementing partners before engaging them to perform programme activities;**

Evaluation of service contracts

(g) **Ensure that country offices complete future evaluations of service contracts on time, ideally one month prior to the expiry of contracts, in accordance with the policy, in order to support reasonable and timely decisions regarding service contracts renewal;**

Management of staff annual leave

(h) **At the Malawi, Paraguay, Egypt, South Africa, Turkey and Turkmenistan country offices: (i) encourage staff to exercise their leave within the period in which it is earned; and (ii) ensure the implementation of a leave plan so that the office operates efficiently at all times, which will also assist to minimize forfeiture of untaken leave days;**

Funding policy of end-of-services liabilities and studies for asset and liability management

(i) **Conduct an asset and liability management study to review the appropriateness of the funding plan and other valuation assumptions;**

Testing of disaster recovery plans and business continuity plans

(j) **At the South Africa and Egypt country offices: (i) strengthen controls over information security to ensure that the disaster recovery and business continuity plans are tested on time and that test results are documented; and (ii) review and update the business continuity plan on time; and at the Malawi country office, prepare and use approved versions of the disaster recovery plan and the business continuity plan;**

Alternative recovery sites and off-site storage facilities

(k) **At the South Africa country office, speed up and finalize the process of establishing a recovery site and renew the memorandum of understanding with the company that is providing off-site storage;**

(l) **At the Malawi country office, establish a documented agreement with the other United Nations agency for the provision of the off-site facility.**

Key facts

170	Countries and territories where UNDP operates
$1,105.8 million	Budget for 2017 approved by the Executive Board for regular resources (core resources). Other resources do not fall within the remit of the approved budget of the Board although they are accounted for in the financial statements
$5.24 billion	Total revenue
$5.09 billion	Total expenses
$7.27 billion	Total assets
$2.63 billion	Total liabilities

A. Mandate, scope and methodology

1. The United Nations Development Programme (UNDP) was established in 1965 by the General Assembly of the United Nations. UNDP partners with entities and people at all levels of society to help build nations that can withstand crisis and drive and sustain growth that improves the quality of life for everyone. UNDP has its headquarters in New York but works primarily through its offices in 170 countries and territories. UNDP provides a global perspective and local insight to help empower lives and build resilient nations.

2. The Board of Auditors has audited the financial statements and reviewed the operations of UNDP for the year ended 31 December 2017 in accordance with General Assembly resolution 74 (I) of 7 December 1946. The audit was conducted in conformity with article VII of the Financial Regulations and Rules of the United Nations and the annex thereto, as well as the International Standards on Auditing. Those standards require that the Board comply with ethical requirements and plan and perform the audit to obtain reasonable assurance as to whether the financial statements are free from material misstatement.

3. The audit was conducted primarily to enable the Board to form an opinion as to whether the financial statements present fairly the financial position of UNDP as at 31 December 2017 and its financial performance and cash flows for the year then ended, in accordance with the International Public Sector Accounting Standards (IPSAS). This included an assessment as to whether the expenses recorded in the financial statements had been incurred for the purposes approved by the governing bodies and whether revenue and expenses had been properly classified and recorded in accordance with the financial regulations and rules of UNDP. The audit included a general review of financial systems and internal controls and testing of the accounting records and other supporting evidence to the extent that the Board considered necessary to form an opinion on the financial statements.

4. In addition to the audit of the accounts and financial transactions, the Board carried out reviews of UNDP operations under regulation 7.5 of the Financial Regulations and Rules of the United Nations. This allows the Board to make observations with respect to the efficiency of the financial procedures, the accounting system and the internal financial controls and, in general, the administration and management of UNDP operations. The General Assembly had also requested the Board to follow up on previous recommendations and to report thereon accordingly. Those matters are addressed in the relevant sections of the present report, and the summary of the results is included in annex I to the present chapter.

5. The Board has also performed the annual audit of the regular resources of the UNDP-Global Environment Facility trust fund and issued an unqualified audit opinion for the year ended 31 December 2017.

6. The Board coordinates with the Office of Audit and Investigations of UNDP in the planning of its audits to avoid duplication of efforts and to determine the extent of reliance that can be placed on the work of the Office. The present report relates to audits performed at the country offices visited by the Board (in Egypt, Malawi, Paraguay, South Africa, Turkey and Turkmenistan) and at UNDP headquarters.

7. The present report covers matters that, in the opinion of the Board, should be brought to the attention of the General Assembly. The Board's observations and conclusions were discussed with UNDP management, whose comments have been appropriately considered in the report.

B. Findings and recommendations

1. Follow-up of recommendations from previous years

8. The Board noted that of the 42 recommendations from previous years that had been outstanding up to the year ended 31 December 2016, 25 (60 per cent) were fully implemented and 17 (40 per cent) were under implementation. Details of the status of implementation of those recommendations are shown in annex I to the present report. While the Board acknowledges management efforts towards implementation of its recommendations, it considers that further efforts are needed to address the recommendations with greater emphasis on the recurring recommendations.

2. Financial overview

Revenue and expenses

9. UNDP revenue includes regular resources (core funds), other resources (non-core funds), investment revenue and other revenue. During the period under review, total revenue amounted to $5.24 billion compared with $5.10 billion for the previous period, representing an increase of 2.7 per cent. Total expenses amounted to $5.09 billion, compared with $4.66 billion for the previous year, representing an increase of 9.2 per cent. In 2017, UNDP had a surplus of $141.65 million compared with the surplus of $443.05 million reported in the previous period, which is a decrease of 68 per cent.

10. UNDP also reported cash and investments totalling $6.71 billion as at 31 December 2017 (2016: $6.38 billion). Total liabilities as at 31 December 2017 were $2.63 billion (2016: $2.25 billion). In accordance with the financial regulations and rules approved by its Executive Board, UNDP held $302.16 million in reserves (2016: $325.13 million) and $4.34 billion as accumulated surpluses (2016: $4.36 billion[3]). Total revenue and expenses for the financial periods 2016 and 2017 are shown in figure II.I.

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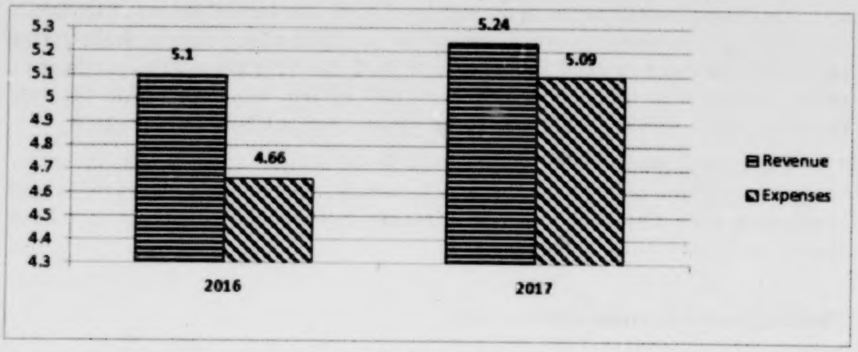
[3] Restated in 2017.

Figure II.I
Revenue and expenses
(Billions of United States dollars)



Source: Analysis by the Board of UNDP financial statements for the periods ended 31 December 2016 and 31 December 2017.
Note: Graph not to scale.

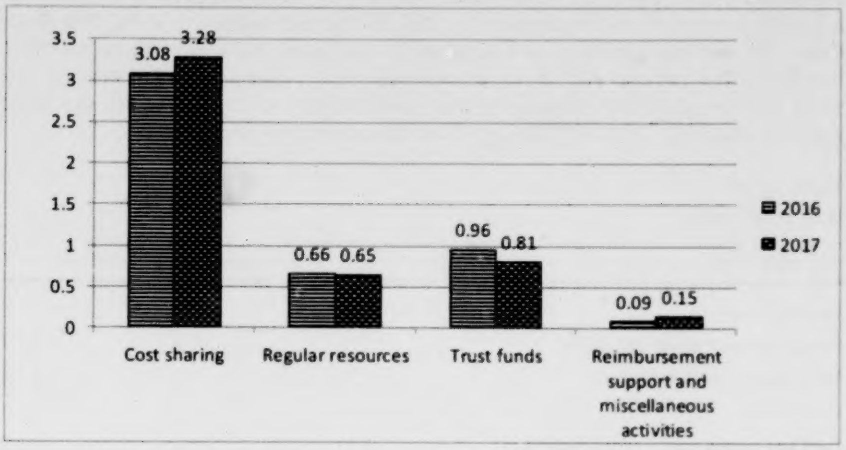
11. Revenue increased by $0.14 billion (2.7 per cent) owing mainly to an increase in voluntary contributions, investment revenue and other revenues, whereas expenses increased by $0.43 billion (9.2 per cent) owing mainly to an increase in contractual services costs and grants and other transfer payments in 2017 compared with 2016. Other factors included an increase in supplies and consumables as well as in general operating expenses.

12. UNDP revenue includes voluntary contributions, revenue arising from exchange transactions, investment revenue and other revenue. During the year under review, voluntary contributions amounted to $4.89 billion (2016: $4.79 billion), representing 93 per cent of the total revenue for the year. The amount included the following: cost sharing, $3.28 billion (67 per cent); regular resources, $0.65 billion (13 per cent); trust funds, $0.81 billion (17 per cent); and reimbursable support services and miscellaneous activities, $0.15 billion (3 per cent). Comparative contributions for regular and other resources for 2016 and 2017 are shown in figure II.II.

Figure II.II

Contributions for regular and other resources

(Billions of United States dollars)

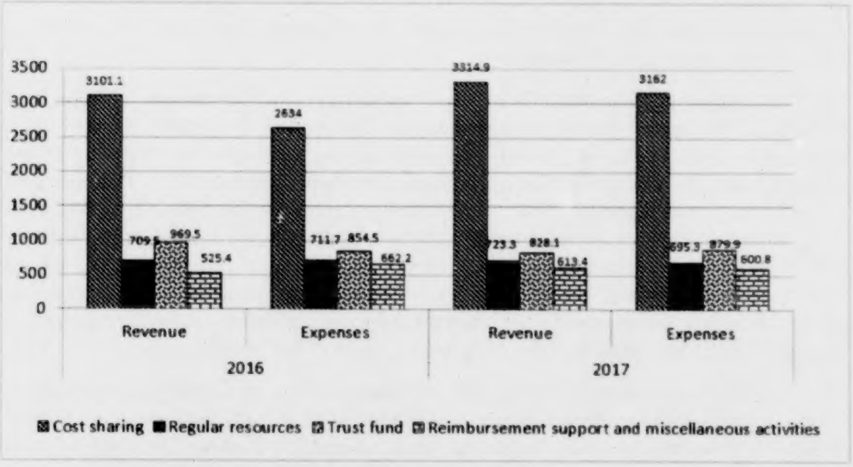


13. Figure II.III below shows the analysis of UNDP revenue and expenses by segment for the years 2017 and 2016. The analysis shows that in 2016 the revenue from two segments (regular resources, and reimbursable support and miscellaneous activities) was less than the related expenses, while revenue for cost sharing and trust funds was greater than expenses by $467.1 million and $115 million respectively. In 2017, except for one segment (trust funds), where the revenue was lower than expenses, the revenues for three other segments (cost sharing, regular resources, and reimbursable support and miscellaneous activities) were greater than the relevant expenses.

Figure II.III

Revenue and expenses by segment

(Millions of United States dollars)



Source: UNDP financial statements for the periods ended 31 December 2016 and 31 December 2017.

Ratio analysis

14. There is a favourable trend with respect to revenue from contributions in three consecutive years (2015, 2016 and 2017), and the ratios set out in table II.1 indicate a healthy overall financial position for UNDP. Current assets are more than three times the current liabilities and total assets are more than two times the total liabilities. The current ratio shows an increasing trend over a period of the last two years (2015 and 2016); however, it decreased slightly in 2017. Overall, the trend signifies the ability of UNDP to pay off its short-term liabilities.

Table II.1
Ratio analysis

Description of ratio	*31 December 2017*	*31 December 2016*	*31 December 2015*
Current ratio[a]			
Current assets: current liabilities	3.77	4.48	3.59
Total assets: total liabilities[b]	2.76	3.11	2.99
Cash ratio[c]			
Cash and investments: current liabilities	3.44	4.12	3.18
Quick ratio[d]			
Cash, investment and accounts receivable: current liabilities	3.62	4.28	3.41

Source: Analysis by the Board of Auditors of UNDP financial statements for the periods ended 31 December 2015 to 31 December 2017.

[a] Current ratio: a high ratio indicates an entity's ability to pay off its short-term liabilities.

[b] Total assets: total liabilities: a high ratio is a good indicator of solvency.

[c] Cash ratio: as a measure of the amount of cash, cash equivalents or invested funds present in current assets to cover current liabilities, the cash ratio is an indicator of an entity's liquidity.

[d] Quick ratio: the quick ratio is more conservative than the current ratio because it excludes inventories and other current assets, which are more difficult to turn into cash. A higher ratio signifies a more liquid current position.

3. Programme and project management

Monitoring and evaluation of United Nations Development Assistance Framework and country programme documents

15. According to paragraph 7 of the Programme and Operations Policies and Procedures on implementing programmes, it is mandatory for UNDP to carry out a systematic review of the country programme as part of the United Nations Development Assistance Framework annual review process. The Policies and Procedures further require UNDP to participate actively in the process, as this is an integral part of the monitoring function of the United Nations system at the country level. If the country does not have a Development Assistance Framework, the annual review can take place through a UNDP country programme review process. Furthermore, the Development Assistance Framework midterm review is required to be conducted in the middle of the programme cycle of the country office.

16. The Board reviewed UNDP country programme documents and implementation of the United Nations Development Assistance Framework, including evaluation activities. From this review, the Board found anomalies in three (Paraguay, South Africa and Egypt) out of six visited country offices which require management action for improvement. The anomalies included non-preparation of Development Assistance Framework progress reports, non-performance of the Development Assistance Framework annual reviews and lack of some information on how targets and baselines

are linked to Development Assistance Framework outcomes and country programme documents.

17. In Paraguay, the country office had not developed the United Nations Development Assistance Framework monitoring and evaluation plan for its programme cycle of 2015–2019. The Board noted that the country office had also not performed the annual Development Assistance Framework reviews for 2015 and 2016. In addition, the matrix of results and resources framework did not include targets and baselines for some of the outcomes. For example, two outcomes (outcomes 1.1 and 2.1) did not have some of the targets and baselines linked with Development Assistance Framework outcomes and the country programme document. Outcome 2.1, on reduction of poverty levels, establishment of decent work and guaranteed improvement of incomes of the working population, had no targets to be met in 2019 for both urban and rural areas. Likewise, for outcome 1.1, on progress made by Paraguay in protecting and guaranteeing the rights of all people, there were no baselines or targets to be achieved in 2019.

18. In South Africa, the country office programme cycle covers the period from April 2013 to March 2019. The country office progress report on the United Nations Development Assistance Framework[4] for the period 2013–2015 was done in 2015. However, the annual reviews under the Development Assistance Framework and the country programme document were not done for the years 2013, 2014 and 2015, as required under the Programme and Operations Policies and Procedures. Furthermore, although the independent consultant performed an evaluation of the Development Assistance Framework/strategic cooperation framework and the country programme document in 2016 and issued a report in August 2017, the United Nations country team and UNDP had not finalized management responses on the strategic cooperation framework and the country programme document evaluations respectively.

19. The Egypt country office programme cycle runs from 2013 to 2017. The Board noted that the United Nations Development Assistance Framework midterm review, which was supposed to be conducted in 2014, had not been conducted as at November 2017. The final review was completed and the report issued in May 2017. However, as at November 2017, there was no management response on the final review and the report had not been uploaded to the United Nation Evaluation Group website.

20. The Paraguay country office informed the Board that the joint monitoring and evaluation plan under the United Nations Development Assistance Framework was not prepared and, as a result, the periodic and annual reviews could not be conducted for 2015 and 2016. The country office also informed the Board that there were no official data on certain baselines and targets. The South Africa country office explained that the road map had been approved by the country team and the responses on the evaluation of the strategic cooperation framework done in 2016 were in progress.

21. Management at the Egypt country office explained that they had postponed the United Nations Development Assistance Framework midterm review, which was supposed to be done in 2014, because the United Nations country team had adopted the Development Assistance Framework annual review for 2015. However, the Board considers that the annual Development Assistance Framework reviews were not designed to be a substitute for the midterm reviews, since the Development Assistance Framework document has specific objectives and a time frame for conducting these reviews separately.

22. Furthermore, the Board is of the view that monitoring and evaluation of the United Nations Development Assistance Framework and the country programme

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[4] In South Africa, the UNDAF is called Strategic Cooperation Framework.

document are crucial to enable the United Nations country team and partners to make timely decisions based on the evidence of evaluation results that will enhance subsequent performance throughout the programme cycle. The Board is concerned that delayed monitoring and evaluation activities mean that UNDP, the country team and the Governments cannot determine Development Assistance Framework implementation challenges in a timely manner so as to take corrective measures.

23. **UNDP agreed with the Board's recommendations that the Resident Coordinator Office in the UNDP Paraguay country office should liaise with the United Nations country team and the implementing partners to: (a) develop the monitoring and evaluation plan for the United Nations Development Assistance Framework covering the remaining period of the programme cycle 2015–2019; (b) ensure that Development Assistance Framework monitoring and evaluation activities are done on time for the remaining period of the Framework; and (c) ensure the completeness and updating of all the information in the Development Assistance Framework and the country programme document, that is, the matrix of results and resources framework (2015–2019).**

24. **UNDP also agreed with the Board's recommendation that the UNDP Egypt and South Africa country offices: (a) continue to liaise with the key counterparts consisting of implementing partners and the United Nations country team so that the counterparts are fully engaged in the United Nations Development Assistance Framework process to smooth implementation of the Framework by conducting annual reviews and responding on time to recommendations of evaluations; (b) formulate strategies to ensure that the results of current Development Assistance Framework evaluations and reviews are used to design the next Framework; and (c) ensure that the conclusions and recommendations from annual and midterm reviews of country programmes enable timely updating and revision of the country programme documents.**

Information update in the Evaluation Resource Centre

25. The Evaluation Resource Centre is the UNDP information management system to support management accountability and transparency in evaluation. It provides timely data on evaluation planning, management response and follow-up. The Centre is also a repository for evaluation reports and serves as the organization's primary tool for knowledge management in evaluation. In accordance with the UNDP evaluation policy, all evaluations require a management response outlining the evaluation's key findings and recommendations and follow-up actions with clear timelines and responsible parties for delivery. The country office must enter follow-up actions, as outlined in the evaluation management response, and regularly update the status of their implementation in the Centre. The management response should be completed within two months of the receipt of the final evaluation report. The Centre has a public website and information uploaded to the Centre must be accurate and up-to-date.

26. Although the evaluations were carried out and recommendations made to the Egypt, Turkmenistan and Turkey country offices, the Board found that these country offices did not update the Evaluation Resource Centre with management responses and actions taken or to be taken on the evaluation results and recommendations made. At the Egypt country office, the evaluations of three projects that were supposed to be carried out in 2017 had not been performed as at November 2017. The Board also noted that the implementation of key actions for other projects were marked as "completed"; however, there were no comments or documents to substantiate the completion of those key actions. In addition, key actions for one project had no deadline for implementation. At the Turkmenistan country office, the United Nations Development Assistance Framework evaluation of the previous programme cycle for

2010–2015 was done in May 2014, but the related evaluation report and management responses to the report were not uploaded to the Centre website.

27. At the Turkey country office, the evaluation outcomes and the United Nations Development Assistance Framework evaluation report for the 2011–2015 programme cycle had 16 recommendations concerning the thematic areas of democratic governance and the environment posted on the Evaluation Resource Centre. However, the country office had no follow-up actions with clear timelines, comments and responsible parties for delivery. Also, the evaluation report and management responses for the United Nations development coordination strategy evaluation were not captured in the Evaluation Resource Centre.

28. In response to the Board's audit observations raised in November 2017, the Turkey, Turkmenistan and Egypt country offices took immediate actions to update management responses for completed evaluations and other relevant information in the Evaluation Resource Centre.

29. The Board noted that there was no management oversight to ensure a regular update of the Evaluation Resource Centre. Since the Centre is a management information system that supports management accountability and transparency in evaluation, timely implementation of evaluation recommendations is necessary to achieve the intended benefits from the evaluations. Also, proper and timely updating of the Centre with clear timelines is crucial for the relevance of information in accountability, managing of results and knowledge management.

30. **UNDP agreed with the Board's recommendation that in future: (a) the UNDP Turkey, Egypt and Turkmenistan country offices update information in the Evaluation Resource Centre in a timely manner; and (b) UNDP headquarters establish controls to ensure that all country offices update information in the Centre, including setting time frames for completion of updates after an evaluation has been completed.**

Certification of combined delivery reports

31. The combined delivery report is a mandatory official report that records project expenses and funds utilized on the project. These reports are to be prepared for all nationally implemented projects at the end of the second and third quarters and at the end of the year. Upon preparation, the combined delivery reports are to be signed by responsible parties to confirm accuracy and completeness of project expenses consistent with the annual workplans and budgets. In this process, UNDP sends combined delivery reports to all implementing partners for certification; if no response is received within 15 days, a follow-up request is sent indicating that, if no response is received within another 15 days, the report will be deemed to have been accepted by the implementing partners.

32. The Board reviewed 87 of the ongoing 194 nationally implemented projects at six country offices and noted that combined delivery reports for the second quarter in respect of 68 projects were signed late and uploaded to the combined delivery report library in the corporate planning system after delays. According to the Programme and Operations Policies and Procedures, uploading of the certified combined delivery report to the library, or follow-up request where no response has been received from the implementing partner, should be done no later than 45 calendar days after the end of the respective quarter, that is by 15 August for the reports of the first and second quarters. In addition, there were no follow-up requests sent to implementing partners to remind them about the need to certify the second quarter combined delivery reports on time. Furthermore, the combined delivery reports for the third quarter (July–September 2017) in respect of 86 out of 87 sampled projects, which were supposed to be sent to implementing partners by 15 October 2017, had not yet been run and

sent to partners as at 10 November 2017. The above information is summarized in table II.2.

Table II.2

Certification of combined delivery reports for five country offices

Country office	*Number of sampled projects*	*Number of combined delivery reports that were signed late and not uploaded to the corporate planning system for the second quarter*	*Signing dates for second quarter combined delivery reports*	*Number of combined delivery reports that were signed late and not uploaded to the corporate planning system for the third quarter*	*Signing dates for third quarter combined delivery reports*
Paraguay	14	11	Between August and 15 November 2017	13	Combined delivery reports were not signed and not uploaded in corporate planning system, and no reminders were sent to implementing partners
South Africa	14	14	November 2017	14	
Egypt	26	18	Between September and November 2017	26	
Turkmenistan	16	8	Between 28 August and 15 November 2017	16	
Malawi	17	17	Between 20 August and 15 November 2017	17	
Total	**87**	**68**		**86**	

Source: Combined delivery reports and corporate planning system, 30 November 2017.

33. The Egypt country office stated that the due date of combined delivery reports is 45 days after headquarters notification of the general ledger closure and clearance to generate the reports not later than the last day of the quarter (30 June 2017), that is, 45 days after 3 August 2017, the date of official notification sent on the "Yammer financial resource management group".[5] Notwithstanding management responses, the Board noted and confirms that paragraph 3 of the Programme and Operations Policies and Procedures requires combined delivery reports to be uploaded no later than 45 calendar days after the end of the respective quarters. The Turkmenistan, Paraguay and South Africa country offices informed the Board that they will upload the combined delivery reports to the library when they receive the countersigned reports from the implementing partners.

34. The Board considers that delay in certification of the combined delivery reports may pose a risk of misstatements in the financial statements, as incorrect postings not rectified on time could lead to erroneous project expenses in the Atlas system and thereby affect the accuracy of project expenses reported in the financial statements.

35. **UNDP agreed with the Board's recommendations that country offices: (a) continue consultation with implementing partners such that combined delivery reports are signed on time by UNDP and the implementing partners in compliance with the Programme and Operations Policies and Procedures; (b) ensure the follow-up requests to the implementing partners are conducted on time and evidence of the follow-up is uploaded to the combined delivery report library in the corporate planning system; and (c) certify the combined delivery**

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[5] Yammer Financial Resource Management Group is a tool created in UNDP mail at headquarters to facilitate convenient communication within the Office of Financial Resources Management.

reports on time when implementing partners are not responding after a reasonably extended period.

Project oversight and monitoring activities

36. In accordance with the requirements of the Programme and Operations Policies and Procedures, monitoring is one of the most important responsibilities of the project manager. The monitoring role is achieved through a variety of formal and informal project monitoring tools and mechanisms, including regular updating of risk logs in Atlas, field visits to projects at least once a year and preparation of annual reports.

37. Furthermore, the Programme and Operations Policies and Procedures for project implementation require that, with regard to enterprise risk management, all planning, implementation, monitoring and evaluation, including associated decision-making, should involve a consideration of risks. At the planning stage, risk management serves to ensure that the programme, operation or activity is defined so as to maximize the probability of achieving desired objectives by pursuing opportunities while confining threats to acceptable levels.

38. At five out of the six visited country offices with a total of 194 ongoing national implementation projects, the Board reviewed a sample of 141 ongoing national implementation projects. In this review, the Board found that project risk identification was conducted at the operational level when unit workplans were being prepared or at the beginning of projects, but risks were not identified adequately and the Atlas enterprise resource planning system was not updated regularly during implementation of the projects. The Board found that risks, issues and monitoring logs for 74 (52 per cent) out of 141 sampled projects were either not updated or only updated late in 2017 after being included in the Board's audit sample, contrary to the Programme and Operations Policies and Procedures which require a regular update. The summary of the projects whose risks, issues and monitoring logs were not updated regularly is presented in table II.3.

Table II.3
Project oversight and monitoring

Country office	*Number of national implementation ongoing projects*	*Number of national implementation projects in the sample*	*Number of projects whose risks, issues and monitoring logs were not updated regularly*
Malawi	28	47	4
Paraguay	20	11	11
Egypt	53	34	13
South Africa	30	32	29
Turkey	47	17	17
Total	**178**	**141**	**74**

Source: Review by the Board of Auditors of monitoring activities in Atlas.

39. The country offices explained that for other project monitoring, issues and risks logs were not updated in the system, but were completed outside the system. The risks and issues are then reflected in project progress reports, discussed in project board meetings and other technical meetings and recorded in the minutes of meetings. However, while the logs were supposed to be updated regularly, the Egypt country office updated the project's risks, issues and monitoring logs only after the Board raised an audit observation during the course of its audit.

40. Lack of project risk identification subsequent to initial identification and infrequent review and updating of risks and issues logs in Atlas may result in delays in taking appropriate measures to mitigate those risks. The Board considers it important for project risks, issues and monitoring activities to be regularly recorded in Atlas where all primary information pertaining to projects is maintained.

41. **UNDP agreed with the Board's recommendation to ensure that country offices review and update project risks, issues and monitoring logs and document information in Atlas on time as the primary source of project information.**

Delays in signing project documents

42. According to the Programme and Operations Policies and Procedures on project management, the project document should be signed as the last step in the formulation and planning of a project before beginning actual project activities. The project document is an agreement between UNDP and the implementing partner to implement a specific project; the signed project document therefore constitutes a basis for the budget allocation, which is approved in Atlas by a UNDP staff member with the appropriate authority.

43. During its audit, the Board found that 23 projects (total budget of $113.07 million) out of 130 projects in three visited country offices started after delays of periods ranging from one to three years, mainly because their project documents had not been signed by responsible parties (see table II.4).

44. The project documents had not been signed by the implementing partners although they were prepared in 2015, 2016 and 2017. The Board noted that much time was consumed in preparing the project documents and for consultations with implementing partners during the preparation of these project documents. The Board also noted that one country office received funds late from the donor in 2016 for some of its projects because of delayed finalization and signing of project documents. In addition, the Board noted a case where one donor informed one of the country offices that one of its projects was going to be cancelled because the Government had delayed the approval of the project documents.

Table II.4
Projects with delayed commencement

Country office	*Number of delayed projects*	*Range of delay*	*Budget (United States dollars)*
1	13	1 to 2 years	68 076 654
2	5	1 to 2 years	20 714 337
3	5	2 to 3 years	24 274 338
Total	**23**		**113 065 329**

Source: Analysis by the Board of Auditors.

45. The first country office attributed the delays in approving project documents to factors such as the longer time taken for security clearance by the Government. The second country office informed the Board that the delays resulted from changes in social, political and security conditions, which caused relations between key donors and the implementing partner to deteriorate. The third country office attributed the delays to changes of key contact personnel within the Government and the challenges of a mismatch between UNDP and government fiscal years. To address this challenge, the country office informed the Board that it had extended the strategic cooperation

framework and UNDP country programme document processes to March 2019 to align it with the fiscal year of the Government.

46. The Board considers that, owing to delays in signing the project documents, respective projects cannot commence on time thereby affecting the implementation and completion of the projects as well as the achievement of intended objectives. It may also lead to a decline in donors' confidence and affect funding of the projects.

47. **The Board recommends that the UNDP country offices, in consultation with the implementing partners: (a) analyse the project documents with respect to their relevance and timing and consider revising them owing to the lapse of time; and (b) consider setting the time frame for implementing partners to approve the project documents.**

4. Harmonized approach to cash transfers

Delayed implementation of the harmonized approach to cash transfers in one country office

48. According to paragraph 7 of the Programme and Operations Policies and Procedures for the harmonized approach to cash transfers, UNDP programmes and projects are subject to the harmonized approach to cash transfers framework (2014) with the requisite assessments, assurance planning and activities, and audits. Harmonized approach to cash transfers assessments include macroassessments to ensure there is adequate awareness of the public financial management environment in which the agencies provide cash transfers to implementing partners, and microassessments to assess the financial management capacity of the individual implementing partners with regard to accounting, procurement, reporting and internal controls.

49. Furthermore, paragraph 20 (n) of the Programme and Operations Policies and Procedures requires that, in the absence of a macroassessment, the Resident Coordinator, after consultation with the United Nations country team, the regional bureau and the UNDP headquarters agency focal point, may decide to proceed to the next stage of the harmonized approach to cash transfers. In such a case, the Resident Coordinator must record on file the key considerations that led to the decision, including efforts to advocate for such an assessment with the Government.

50. The Programme and Operations Policies and Procedures for the harmonized approach to cash transfers require all programmes and projects to implement the harmonized approach from 1 January 2015, and the United Nations Development Assistance Framework of the country office concerned (for the period 2016–2020) highlighted that UNDP, UNICEF and the United Nations Population Fund (UNFPA) would gradually employ the harmonized approach to cash transfers for disbursing and reporting on the project funds utilized by implementing partners. However, the Board noted that one of the visited country offices had not started the implementation of the harmonized approach to cash transfers framework as at November 2017. On 10 August 2011, the country office requested the regional bureau to postpone implementation of the harmonized approach until January 2013. On 14 February 2014, the country again requested further postponement of the implementation to January 2016. The Board found that the regional bureau had not responded to the request and the country office had not started the implementation of the harmonized approach or followed up with the bureau on the status of its request. The Board noted that the country office had every intention of implementing the harmonized approach, but the data and information provided by the Government to support implementation of the macroassessment was inadequate and several reminders that were sent to the Government had not been responded to. However, the Board considers that despite the inability of the Government to provide the required data for the macroassessment,

the country office could invoke paragraph 20 (n) of the Policies and Procedures and proceed with the implementation of the harmonized approach.

51. In addition, while taking note of the efforts by the country office to write letters to the regional bureau, the Board is concerned that there was no feedback from the bureau. Delayed implementation of the harmonized approach denies UNDP the understanding of the appropriate approach in dealing with implementing partners and poses the risk of non-achievement of the intended objectives.

52. **UNDP agreed with the Board's recommendation to: (a) provide further guidance to the country office concerning implementation of the harmonized approach to cash transfers framework; and (b) continue to advocate to the Government and development partners on the importance of implementing the framework in the country office.**

Performance of working group on the harmonized approach to cash transfers

53. Paragraph 6.13 of the United Nations Development Group harmonized approach to cash transfers framework (2014) encourages the establishment of a working group on the harmonized approach. The working group is a subgroup of the United Nations country team composed of operations and programme staff from each participating agency. It is responsible for planning and facilitating the implementation of the harmonized approach to cash transfers framework in the country. Among other things, this group reviews annual agency assurance plans, advises management on risk management approaches in implementing the harmonized approach and monitors its implementation.

54. During its review of implementation of the harmonized approach to cash transfers at the six visited country offices, the Board noted that the Turkmenistan, Turkey and South Africa offices had established working groups on the harmonized approach to cash transfers. However, there were no meetings or activities conducted to confirm that these groups had discharged their responsibilities during 2017. At the Paraguay country office, the Board noted that the office had set up a working group only on 15 November 2017.

55. The Turkmenistan country office explained that the working group on the harmonized approach to cash transfers was active in the programme cycle of 2010–2015 but the group became dormant in the cycle of 2016–2020. The South Africa country office assured the Board that it would reactivate the working group within the United Nations country team. The Turkey country office explained that although the working group did not have any official meeting in 2017, it had exchanged information and conducted consultations among agencies on implementation of the harmonized approach. The Paraguay country office explained that working group activities did not take place in 2017 since the group was established close to the end of the year (on 15 November 2017), while the Turkmenistan country office confirmed that the working group was not active in 2017 but management would liaise with the country team to re-establish it in 2018.

56. The Board is of the view that effective performance of the working group on the harmonized approach to cash transfers would be necessary for proper monitoring of implementation of the harmonized approach to cash transfers framework at the country office level. In the absence of an effectively functioning working group, the country offices might fail to achieve the targeted benefits of the framework because of a lack of adequate guidance.

57. **UNDP agreed with the Board's recommendation that the Turkmenistan, South Africa, Turkey and Paraguay country offices encourage the working groups on the harmonized approach to cash transfers to be active and perform**

their duties to facilitate planning and implementation of the harmonized approach to cash transfers framework in the respective countries through regular meetings and activities, which should be documented.

Macroassessment

58. The purpose of conducting macroassessments is to ensure adequate awareness of the public financial management environment within which agencies provide cash transfers to implementing partners. According to the United Nations Development Group harmonized approach to cash transfers framework, the macroassessment may leverage available assessments conducted by the World Bank and other institutions, but these assessments are not a substitute for the macroassessment required under the framework, which has a specific risk consideration checklist, as provided for in paragraph 20 (a) of the UNDP Programme and Operations Policies and Procedures on the harmonized approach. Paragraph 7.8 of the United Nations Development Group framework provides that the macroassessment is expected to be undertaken once per programme cycle, preferably at the time of the preparation of the common country assessment.

59. The Board noted that South Africa and Egypt country offices had not conducted macroassessments as required by the United Nations Development Group harmonized approach to cash transfers framework and the UNDP Programme and Operations Policies and Procedures, although they were in the fifth year of the programme cycles of 2013–2019 and 2013–2017 respectively. UNDP informed the Board that the South Africa and Egypt country offices relied on reports of public expenditure and financial accountability obtained from the European Union in 2014 and the World Bank in 2009 respectively. The South Africa country office aimed to perform the macroassessment for the new programmatic cycle of April 2019 to March 2023. UNDP further explained that the Egypt country office had used a macroeconomic condition report from the World Bank issued in October 2017 as input for the macroassessment in the new programme cycle (2018–2022), which was finalized by consultants in December 2017 with the report being shared with the Board in May 2018.

60. The Board is concerned that the absence of a harmonized approach to cash transfers macroassessment may limit the country office's understanding of the public financial management environment in which the agencies provide cash transfers to implementing partners. This may result in difficulties in identifying risks at the country level. Furthermore, while the public expenditure and financial accountability report may be used as an important source of information, it is not sufficient to ensure compliance with the United Nations Development Group harmonized approach to cash transfers framework and the UNDP Programme and Operations Policies and Procedures on the harmonized approach. In accordance with the framework, public expenditure and financial accountability assessments are not supposed to be considered as a substitute for the macroassessments under the harmonized approach, which include a special checklist for consideration of risks.

61. **UNDP agreed with the Board's recommendation that the South Africa country office use public expenditure and financial accountability reports as a source of information and liaise with other United Nation agencies to conduct macroassessments for the harmonized approach to cash transfers to align with their country office programme cycles, as required by the Programme and Operations Policies and Procedures on the harmonized approach to cash transfers and the United Nations Development Group harmonized approach to cash transfers framework.**

Microassessment

62. Paragraph 24 (f) of UNDP Programme and Operations Policies and Procedures on the harmonized approach to cash transfers stipulates the microassessment should be performed before the start of programme activities, and where this is not possible it should be done as soon as possible thereafter. The results of the microassessment assist in determining the appropriate modality for cash transfers to the implementing partners. Where there is no previous assessment, a high risk should be assumed during the programme period until the microassessment has been completed and the overall risk rating has been determined. For implementing partners rated as high risk, neither direct cash transfer nor reimbursement modalities should be used.

63. During its audit at six visited country offices, the Board noted that the Egypt country office had not performed microassessments for any of its 18 implementing partners for the current programme cycle of 2013–2017; in addition, no microassessments of any implementing partners were performed in the previous cycle. However, the country office issued advances amounting to $810,072 to 13 of its implementing partners. Under these circumstances, the Board considers that the country office carries a high risk of loss for the advances issued. At the Paraguay country office, the programme cycle runs from 2015 to 2019. The Board noted that seven out of 10 implementing partners were assessed after they started implementing projects.

64. Management at the Paraguay country office explained that microassessments done in 2017 for other new implementing partners were completed prior to the cash transfers to implementing partners. The Egypt country office informed the Board that each year it conducts yearly national implementation modality audits for the projects and that the reports for the past three years were unqualified. It added that the country office hired a third-party service provider in 2017 to conduct microassessments, and it was waiting for security clearance from the Government for the consultant to start the assignment.

65. However, the Board considers that national implementation modality audits do not exempt country offices from conducting microassessments of its implementing partners as required under the harmonized approach to cash transfers. In addition, starting the implementation of projects prior to conducting microassessments of the implementing partners exposes the Paraguay country office to the risk of applying an inappropriate cash transfer modality to the respective implementing partners. Microassessments of implementing partners provide a crucial basis for UNDP to decide appropriately on whether to transfer funds to implementing partners, make direct payments to vendors, or make reimbursements. The country offices were supposed to assume a high risk in dealing with the implementing partners because of the lack of microassessments, and in that regard direct payments to vendors or country office support to the national implementation modality would have been considered to be the appropriate cash transfer modality.

66. **The Board recommends that, in future, the UNDP Paraguay and Egypt country offices conduct microassessments of implementing partners and determine the appropriate cash transfer modality before engaging them to perform programme activities in line with the Programme and Operations Policies and Procedures on the harmonized approach to cash transfers.**

Delay in updating of the Programme and Operations Policies and Procedures on the harmonized approach to cash transfers for microassessments

67. The United Nations Development Group revised the harmonized approach to cash transfers framework in 2014 with the objective of improving its effectiveness;

streamlining agency practices and reducing the burden on implementing partners and agencies; clarifying guidelines or developing additional guidelines to support consistent implementation of the framework; and addressing issues and recommendations identified in recent assessments of the harmonized approach to cash transfers framework prepared by various United Nations agencies.

68. UNDP approved the Programme and Operations Policies and Procedures on the harmonized approach to cash transfers in line with United Nations Development Group harmonized approach to cash transfers framework, which was also communicated through the UNDP intranet site. Regarding microassessments of implementing partners, country offices are required to appoint a third-party service provider to assess implementing partners by using the methodology described in the questionnaire in appendix IV of the harmonized approach framework of 2014.

69. UNDP headquarters issued instructions to country offices on 31 May 2016 regarding changes in the methodology used in microassessments of implementing partners. The changes included the reduction in the number of questions in the microassessment questionnaire from 130 questions in nine risk categories to 96 questions in seven risk categories; and the revision of the weights assigned to the questions.

70. The Board was informed that the changes took place immediately, and management was supposed to revise the Programme and Operations Policies and Procedures on the harmonized approach to cash transfers in 2016 to accommodate the changes. However, as at 29 November 2017, the Policies and Procedures had not been updated and were still referring and linked to the old methodology for microassessment described in appendix IV of the harmonized approach framework of 2014. Although the Policies and Procedures had not been revised, three of the country offices (Malawi, South Africa and Turkey) visited by the Board had started using the new methodology (revised procedures) in conducting harmonized approach to cash transfers microassessments.

71. Management explained that while the new microassessment methodology was available on the United Nations Development Group website, the navigation was not working until December 2017, when the link was fixed, and therefore the UNDP Programme and Operations Policies and Procedures on the harmonized approach to cash transfers was updated with the revised microassessment methodology in December 2017.

72. The Board is concerned that it took 18 months to fix the navigation link after the changes came into effect in May 2016. Delay in updating the Programme and Operations Policies and Procedures might lead to inconsistencies in implementation of the microassessments by country offices with a consequence of reaching unrealistic conclusions. For instance, in this case while the Paraguay country office used the old methodology for microassessments of implementing partners, the Egypt and Turkmenistan country offices did not conduct microassessments.

73. **The Board recommends that in future UNDP update in a timely manner the contents of the Programme and Operations Policies and Procedures on the harmonized approach to cash transfers, related guidance notes and the methodology (checklist) to accommodate and harmonize changes pursuant to UNDP requirements before country offices start implementation of those changes.**

5. Assets management

Review of estimated useful life of property, plant and equipment

74. Paragraph 67 of IPSAS 17 (on property, plant and equipment) requires the residual value and the useful life of an asset to be reviewed at least at each annual reporting date and, if expectations differ from previous estimates, the change(s) are to be accounted for as a change in accounting estimates in accordance with IPSAS 3: Accounting policies, changes in accounting estimates and errors. In addition, note 3.8 to the UNDP financial statements requires the accounting estimates and underlying assumptions to be reviewed on an ongoing basis and that revisions to estimates are recognized in the year in which the estimates are revised and in any future year that will be affected.

75. For the year ended 31 December 2017, UNDP disclosed the amount of $11.44 million (2016: $9.89 million) as the gross carrying amount of fully depreciated assets that were still in use. However, the Board noted that UNDP had not developed procedures to be followed in the review of residual value and estimation of the useful life of assets. The trend of fully depreciated assets that were still in use at year-end from 2014 to 2017 is as shown in table II.5.

Table II.5

Gross carrying amount of fully depreciated assets

Year	*Gross carrying amount (United States dollars)*
2014	10 500 000
2015	10 930 000
2016	9 890 000
2017	11 435 000

Source: UNDP financial statements.

76. Management explained that UNDP follows the requirements of IPSAS 17 and reviews the useful life of assets on an annual basis and the fully depreciated assets in UNDP are represented at the reasonable percentage rate (4.5 per cent in 2017) compared with the total of UNDP fixed assets. Management further explained that the trend was consistent with prior years, when fully depreciated assets accounted for between 3.9 per cent and 4.5 per cent of the total of UNDP fixed assets in the years from 2014 to 2016.

77. The Board was also informed that there was a positive trend in the disposal of the fully depreciated assets, whereby a total of 400 fully depreciated assets were disposed of in 2017. Management also stated that the value of the fully depreciated assets in 2017 was an isolated case, where many assets became fully depreciated close to the end of 2017; therefore, given the competing priorities that UNDP had at the end of the year, as well as the rigorous disposal process, there was no time to complete the disposal before the year-end.

78. Despite the percentage of fully depreciated assets of 2017 being reasonably consistent with figures for the years from 2014 to 2016, the Board is of the view that there is a need for UNDP to document procedures performed to evidence the review of the useful life of assets in compliance with IPSAS 17. While UNDP shared with the Board its report on the useful-life asset review in 2017, that report was not supported by guidelines, policy or detailed procedures on how such reviews of the useful lives of assets were being performed.

79. **The Board recommends that UNDP document its annual process performed to evidence the review of useful lives of assets, and specify in the policy guidelines the manner in which the review of the useful lives of assets will be performed and documented.**

Cost incurred for internally developed software (intangible assets)

80. UNDP had 14 intangible assets costing $4.02 million that were under development during 2017. The Board reviewed $3.69 million out of the total cost of $4.02 million and found that $3.12 million was paid to consultants, while $571,027 was paid to UNDP staff who were involved in the development of the software. The Board further noted that staff costs were derived based on hours spent in developing the software and that UNDP certifies costs attributable to intangible assets as a percentage of the staff cost. However, there was no evidence, such as timesheets, to support the costs of UNDP staff who worked on developing the software.

81. Management explained that both the consultants and UNDP staff are paid on an hourly basis, but while for consultants management relies on timesheets maintained by managers, for UNDP staff management relies on certification from project managers without timesheets.

82. The Board is of the view that procedures for determining costs of staff working for internally developed software needs to be improved by introducing timesheets, since certification by project managers has some limitations in determining and supporting the percentage of staff cost involved in software development.

83. **The Board recommends that UNDP establish a mechanism such as timesheets to capture time spent by UNDP staff in order to improve the determination of staff costs for internally developed software.**

6. Human resources management

Evaluation of service contracts

84. The Board raised concerns over delays in evaluation of service contractors in its reports for 2015 and 2016 (A/71/5/Add.1 and A/72/5/Add.1). The Board has continued to note similar cases of delays, contrary to paragraph 43 (g) of the UNDP Programme and Operations Policies and Procedures concerning service contracts, which requires the evaluation of service contract holders to be completed ideally one month before the expiration of the service contract.

85. From a sample of 47 service contract holders in three country offices,[6] the Board found that evaluations of 15 (32 per cent) service contract holders were performed less than a month before their contracts expired, evaluations of seven (15 per cent) service contract holders were performed after the expiration of their contracts, evaluations of 12 (25 per cent) service contract holders were not performed at all, and evaluations of 13 (28 per cent) service contract holders were either not due or were performed on time. A summary is provided in table II.6.

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[6] Malawi, Paraguay and South Africa.

Table II.6
Evaluation of service contract holders

Country office	*Delayed evaluation of service contractor*				
	Number of service contract staff	*Timing of evaluations (days before contract expiration)*	*Evaluations not performed*	*Evaluations done after expiry of service contract*	*Evaluations not due, or were done on time*
Malawi	7 out of 18	1–14 days	2 out of 18	2 out of 18	7 out of 18
Paraguay	8 out of 20	1–26 days	9 out of 20	0 out of 20	3 out of 20
South Africa	0 out of 9	–	1 out of 9	5 out of 9	3 out of 9
Total	15 out of 47	–	12 out of 47	7 out of 47	13 out of 47
Total (percentage)	**32**	–	**25**	**15**	**28**

Source: Analysis by the Board of Auditors.

86. The Board was informed that, in some cases, evaluations were done on time, but the signing of the reports was delayed owing to several factors, including the absence of relevant parties and inadequate monitoring of quality and timeliness of evaluations. Management also attributed the delays in evaluation to project dynamics, which affected service contract evaluations. They also argued that at the time of service contract extension, the country office documents, in an internal memorandum on the service contract extension request, the need to continue with the services, which implicitly means that supervisors are satisfied with the quality of the services rendered by the service contract holders.

87. While acknowledging the process of evaluation of service contractors at different levels, including the requirement to obtain the approval of supervisors, the Board is of the view that proper planning and monitoring of the evaluation exercise could have been made, incorporating all contingency measures to ensure that the exercise is completed without delays. The delays in evaluating the service contract holders reduce the time available for supervisors to make guidance notes and feedback to be addressed by service contract holders before the expiration of contracts.

88. **UNDP agreed with the Board's recommendation that the Malawi, Paraguay and South Africa country offices ensure that, in future, evaluations of service contractors are completed on time, ideally one month prior to the expiration of contracts in accordance with policy, to give reasonable time for the office to make relevant and timely decisions regarding service contracts.**

Management of service contracts

89. The service contract user guide requires that the service contract modality should not be used for hiring local office personnel for internal control functions, that is, staff functions that are of a continuing nature and are part of the central work of UNDP or as a means to complement the duties of non-performing staff or staff on any type of leave.

90. During its audit at the country offices, the Board noted that the Turkmenistan country office had three service contractors who were assigned duties to backstop UNDP staff in their absence, even for functions that were of a continuing nature and were part of the central work of UNDP. For example, a service contract holder was hired and assigned the duty of stamping financial documents, submitting payments to

bank signatories, filing the documents and making payment cycles to backstop the Finance Associate who was absent for seven weeks.

91. Management explained that the referred service contract holders were not part of the central work of UNDP since none of them performed any internal control function in the office. Management described the full scope of the pay cycle in the context of Turkmenistan, which includes manual and clerical steps such as typing and printing instructions to the local bank and filling in checks, and stated that the Atlas pay cycle process was always run by staff on fixed-term appointments. However, the Board considers that functions of a clerical nature and manual tasks pertaining to the pay cycle are of a continuing nature and are part of the central work of UNDP, and that they cannot therefore be considered to be non-internal control functions for UNDP, irrespective of the short period for which the service contract holders are hired.

92. **UNDP agreed with the Board's recommendation that the Turkmenistan country office: (a) align the job descriptions for the hired service contract individuals with the service contract user guide; and (b) ensure that the service contract holders do not perform internal control functions to compensate for the absence of staff.**

Completion of mandatory training for staff

93. UNDP has learning programmes that are mandatory for all staff in order to understand the mandate of the organization, the organizational goals, the work and the values to enable them to become effective members of UNDP. To achieve this objective, UNDP developed the Talent Development Centre, which is a learning platform with specialized courses that have been developed internally, partnering with subject matter experts in the organization and drawing on their knowledge of UNDP or topics specific to the United Nations. It provides mandatory training that needs to be completed by staff. The mandatory courses, such as basic security in the field and advanced security in the field, should be taken within the first three months of staff employment and every three years thereafter.

94. While the Board raised concerns over non-completion of mandatory courses in its previous report (A/72/5/Add.1), it continued to observe low rates of completion of mandatory training in the current year in three of the six visited country offices. For example, a sample of 153 staff members eligible to undertake training reviewed by the Board at three of the visited countries[7] showed that a substantial number of staff had not completed various courses as at the time of conducting the audit in November 2017, as follows: basic security in the field, 82 staff (54 per cent); advanced security in the field, 101 staff (66 per cent); United Nations prevention of harassment, sexual harassment and abuse of authority, 67 staff (44 per cent); the gender journey: thinking outside the box, 63 staff (41 per cent); UNDP legal framework, 64 staff (42 per cent); ethics training, 60 staff (39 per cent); and human rights, 70 staff (46 per cent). The details are summarized in table II.7.

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[7] Malawi, South Africa and Turkmenistan.

Table II.7

Status of staff mandatory training

		Course type and status of completion (number and percentage of staff)						
Country office	*Staff eligible to undertake training*	*Basic security in the field*	*Advanced security in the field*	*United Nations prevention of harassment, sexual harassment and abuse of authority*	*The gender journey: thinking outside the box*	*UNDP legal framework*	*Ethics training*	*Human rights*
Malawi	80	26 (32%)	8 (10%)	19 (24%)	26 (32%)	21 (26%)	29 (36%)	19 (24%)
South Africa	28	21 (75%)	21 (75%)	22 (79%)	19 (68%)	23 (82%)	19 (68%)	19 (68%)
Turkmenistan	45	24 (53%)	23 (51%)	45 (100%)	45 (100%)	45 (100%)	45 (100%)	45 (100%)
Number of staff who completed training		**71**	**52**	**86**	**90**	**89**	**93**	**83**
Staff who did not complete training		**82**	**101**	**67**	**63**	**64**	**60**	**70**
Total eligible staff		**153**	**153**	**153**	**153**	**153**	**153**	**153**

Source: UNDP Talent Development Centre

95. Management explained that more efforts will be exerted to facilitate completion of mandatory courses by introducing more regular and frequent reminders and that corrective actions will be taken by the office, with supervisors evaluating compliance as part of staff annual performance documents. Furthermore, the Board was informed that the mandatory courses are part of the learning goals under the performance management and development system, and that the learning goals will not be completed without the mandatory courses being passed, thus ensuring their completion in a timely manner.

96. The Board considers that the explained initiatives need to be supported by close follow-up by senior management to ensure success. Non-completion of mandatory training hinders the achievement of the policy objectives of ensuring staff awareness on safety and security risks and creation of a good working environment that is free from intimidation, hostility, offence and any form of harassment and retaliation.

97. **The Board reiterates its previous recommendation that UNDP ensure all staff members complete mandatory training courses on time.**

Management of staff annual leave

98. The UNDP Programme and Operations Policies and Procedures concerning annual leave state that annual leave is granted by UNDP to provide staff members with periods of time off from work at full pay for personal reasons and for purposes of health, rest and recreation. Subject to the exigencies of service, staff members are expected to exercise their leave within the period in which it is earned. Furthermore, paragraph 12 of the policy explains that advance planning of leave is essential to ensure that the office can operate efficiently at all times and allow as much notice as possible for staff members to arrange their own leave plans.

99. During its visits to six country offices, the Board noted 76 staff who had accumulated leave balances of between 60.5 days and 90 days, which is above the allowed carry-over balance of 60 days, as at March 2018. As a result of the failure of staff to take their annual leave on time, their excess leave balances of between half a

day and 30 days were forfeited at the cut-off date (31 March 2018), as summarized in table II.8.

Table II.8
Management of staff annual leave for 2017

Country office	*Number of staff with accumulated leave balances above 60 days*	*Closing balance as at 31 March 2018 (days)*	*Forfeited leave as at 31 March 2018 (days)*
Egypt	12	61–72.5	1–12.5
Paraguay	5	60.5–86	0.5–26
Malawi	22	60.5–90	0.5–30
South Africa	9	61–87	1–27
Turkey	24	60.5–80	0.5–20
Turkmenistan	4	61–74	1–14
Total	76		

Source: Analysis by the Board of Auditors of leave balances for 2017.

100. Management explained that staff members have been encouraged to take their leave according to the leave plans, but because of exigencies of work, some staff members have not been able to exhaust their leave on time.

101. The Board is of the view that failure to take annual leave for a long time has a negative impact on staff performance. Furthermore, the high accumulated leave balances may affect the implementation of the country office leave plan, especially when more staff members are likely to take their leave closer to the annual cut-off date.

102. **UNDP agreed with the Board's recommendations that country offices: (a) encourage staff to exercise their leave within the period in which leave is earned; and (b) ensure the implementation of the leave plan so that the office operates efficiently at all times and ultimately to reduce cases of forfeited untaken leave days.**

Funding policy of end-of-service liabilities and studies for asset and liability management

103. The UNDP policy on funding of end-of-service liabilities of 2012 explained that UNDP had established a funding strategy over a period of 15 years to achieve full funding of the end-of-service liabilities. The policy requires UNDP to engage the services of independent consultants to periodically undertake asset and liability management studies to review the appropriateness of the funding plan and other valuation assumptions adopted by the organization. The latest such study was done in 2014 and concluded that it would be considered prudent to target a funded ratio of 90 per cent to 100 per cent of the funding liability within 15 years and that periodic actuarial valuations will inform UNDP on the progress towards this goal and whether adjustments to the funding and/or investment policy are necessary.

104. However, the Board noted that in 2017 the absolute value of funding available for after-service health insurance had increased to $654.1 million from $563.1 million in 2016, but the funded ratio of the after-service health insurance liability had decreased to 50 per cent in 2017 (2016: 56 per cent).

105. Management informed the Board that the funding strategy is determined before receipt of the most recent actuarial report. While the aim of UNDP is to ensure that

the funded ratio increases over the years towards its target rate (in 15 years), there are years where this may not be the case (e.g. in 2014 and 2017 where the funded ratios decreased). The Board was further informed that UNDP was able to invest in a multi-asset class portfolio that has generated performance returns in excess of that which could have been achieved in the internal fixed-income only portfolio. While many of the assets have been outsourced, there is still a portion ($125 million) remaining which will be outsourced in 2018. UNDP is planning to review the after-service health insurance funding plan (including the payroll contribution rate and supplemental contributions) once the update to the asset and liability management study is undertaken.

106. The Board considers that since the actuarial valuation is based on many assumptions, it is expected that the valuation results will vary from prior results as actual experience may differ from the assumptions. Thus, the lack of periodic asset and liability management studies since 2014 limits UNDP from getting information on the appropriateness of the funding plan and other valuation assumptions to be adopted that could assist in ensuring that the funding level remains relevant in the respective year.

107. The Board also considers that despite the policy being silent on the frequency of conducting the asset and liability management studies, the relevancy of the study conducted in 2014 could be impaired over time, and there is a need for UNDP to conduct a new study and specify the frequency of undertaking asset and liability management studies that will help UNDP to determine the impact on the funding strategy in a timely manner.

108. **The Board recommends that UNDP: (a) conduct an asset and liability management study to review the appropriateness of the funding plan and other valuation assumptions; and (b) update its policy for funding of end-of-service liabilities to specify the frequency of asset and liability management studies as the current policy is silent in this area.**

7. Cash and bank management

Investment guideline review

109. Section VII of the investment guidelines on investment oversight requires the Treasury of UNDP to perform mandatory reviews on investment guidelines annually, with any recommendations for change presented to the Investment Committee for approval.

110. At its meeting in the second quarter of 2017, the Investment Committee indicated that there was a need for a comprehensive review of the investment guidelines, to be presented at the Investment Committee meeting scheduled for October 2017. In order to carry out that exercise, the investment unit would have sought input from the legal section for the revisions to be made and discussed them with the Chair and Deputy Chair of the Investment Committee before presenting them to the Investment Committee for review and approval. However, the Board noted that the annual reviews of the investment guidelines were not conducted for 2016 and 2017. Therefore, the intention of the Investment Committee to have the guidelines comprehensively reviewed was not achieved. The Board noted that, although the investment guidelines state that they must be reviewed annually, the manner in which the review should be conducted and documented before presentation to the Investment Committee for approval is not specified.

111. Management explained that there were indirect reviews conducted in 2016 and 2017, since the investment guidelines do not specify the format in which such reviews are to be conducted. They added that the intent of the review is to ensure that the

guidelines are effective in managing the risks associated with the portfolio. Furthermore, management stated that the investment officers use the guidelines on a daily basis in managing the portfolio; thus, a review effectively takes place on a daily basis as there is always consideration of the effectiveness of the guidelines in managing the risks associated with the portfolio in the current market environment. In addition, it was clarified that the documented process of the review is when a decision is made to change the guidelines and such changes are then presented to the Investment Committee. For 2016 and 2017, a decision was made to not change the guidelines so there was no document produced asking for a change. However, the Board did not obtain documentary evidence to support management explanations on the reviews conducted on the investment guidelines even if no changes were made to them.

112. The Board is of the view that without documentation to support management actions, the review of the investment guidelines could not be confirmed. Reviewing the investment guidelines would enhance assurance that the guidelines are current and up to date in assisting the organization on issues related with investments. The Board is also of the view that there is room for improvement in the investment guidelines since they do not explain and specify the manner in which the guideline reviews would be conducted and documented.

113. **The Board recommends that UNDP: (a) specify in the investment guidelines the manner in which the review of the guidelines will be performed and documented; and (b) in future, annual reviews of the investment guidelines will be performed and documented.**

8. Contributions management

Collectability of government contributions towards local office cost

114. In accordance with the Standard Basic Assistance Agreement, which governs UNDP operations in programme countries, host Governments are expected to contribute towards the cost of country offices. In the Assistance Agreement signed between UNDP and one host Government, the government contribution towards the local office cost was agreed to be paid to UNDP every year. Through a review of the Standard Basic Assistance Agreement and payment particulars, the Board noted that the country office had in place a government contribution agreement amounting to $4.39 million accrued from 1998 to 2017, out of which the country office had not received a total of $2.47 million as at 31 December 2017.

115. Management explained that UNDP had been regularly following up on this matter with the designated representative of the respective host Government, both through meetings and by yearly correspondence, without success. They added that the issue had also been internally escalated to the regional bureau through discussions to propose possible solutions, including looking for alternative approaches to be considered to collect the contribution from the Government.

116. While the Board takes note of the efforts by management in following up with the Government and escalating the matter to the Regional Bureau for Latin America and the Caribbean, it is still concerned that compliance with the government contribution agreement has remained outstanding for a long period, indicating that the recoverability of the aged contribution is uncertain. In addition, management had no clear strategy on how to recover the outstanding amount.

117. **UNDP agrees with the Board's recommendation that the country office liaise with the Government, the regional bureau and UNDP headquarters regarding the fate of the aged outstanding government contribution for the local office cost in order to report such balances which are current and collectible.**

9. Common shared services

Signing of the memorandums of understanding and uncollected amounts of common shared services

118. The United Nations Development Group provides guidance to United Nations agencies that have agreed locally to have common or shared services, which mostly relate to common premises and for which each agency is required to sign a memorandum of understanding with UNDP as the lead agency for use and occupancy of common premises and contribute to meet the operational requirements of the United Nations country team.

119. At four out of the six visited country offices, the Board noted that 20 agencies out of 55 had not signed the memorandum of understanding with UNDP for the use of common premises, as summarized in table II.9. The other two country offices (Egypt and Paraguay) had no weakness in this area.

Table II.9

Status of signing of memorandums of understanding in selected country offices

Country office	*Number of agencies that have not signed a memorandum of understanding*	*Agencies*
South Africa	8 out of 21	Africa Forum, UNICEF, United Nations Office on Drugs and Crime, International Labour Organization, International Organization for Migration (IOM), World Food Programme (WFP), United Nations Organization Mission in the Democratic Republic of the Congo and Office for the Coordination of Humanitarian Affairs of the Secretariat
Malawi	3 out of 18	IOM, Emergency Response Team and United Nations Office for Project Services
Turkmenistan	7 out of 7	UNICEF, United Nations Entity for Gender Equality and the Empowerment of Women, UNFPA, United Nations Office on Drugs and Crime, IOM, Department of Safety and Security of the Secretariat and World Health Organization
Turkey	2 out of 9	WFP and Office for the Coordination of Humanitarian Affairs
Total	**20 out of 55**	

Source: Review of records by the Board of Auditors.

120. The Board also noted a considerable delay in the collection of common shared budget bills from agencies. For example, the South Africa country office had pending collection of 1.64 million South African Rand (equivalent to $126,081) from six United Nations agencies relating to financial years 2015 and 2016. In the Turkey country office, out of $476,525 billed to agencies in January 2017, the office had collected $281,861 (59 per cent) after a delay of periods ranging between 2 and 10 months from the dates the invoices were raised.

121. Management explained that some agencies did not send representatives during the signing of the memorandum of understanding, while others joined the common premises later after the initial signing of the memorandum. The Board was also informed that the memorandums of understanding will be revised to include all agencies as deemed appropriate. They further explained that the agreement for the building at the Turkmenistan country office is tied up with the memorandum of agreement between UNDP and the Government of Turkmenistan, which was expected to be finalized and signed in 2017.

122. The Board is of the view that the lack of a signed memorandum of understanding may result in misunderstanding between UNDP and agencies on cost recovery and common shared services. Furthermore, the failure to recover the costs on time from agencies means that UNDP might need to utilize its resources in advance to cover operational costs which are required to be paid by other United Nations agencies.

123. **UNDP agreed with the Board's recommendation that country offices ensure: (a) that United Nations agencies sign the memorandum of understanding for the occupancy and use of United Nations common premises; and (b) that all amounts due for payments or refunds between agencies are settled on time in accordance with the memorandum of understanding.**

10. Information and communications technology

Evaluation of information and communications technology investment plan

124. The UNDP Office of Information Management Technology has a four-year investment plan (2014–2017) divided into four annual information and communications technology (ICT) road maps. The plan was reviewed and approved by the ICT governance group and the Organizational Performance Group. The ICT road maps constitute ICT projects derived from UNDP strategic priorities and urgent operational requirements, thus the success of the plan is measured by contributions of projects in achieving corporate goals. The Office of Information Management Technology has ICT project management guidelines which define procedures for managing ICT road map projects. The guidelines adopted Prince2, Agile Scrum and return on investment methodologies, which require a benefits review plan to identify the benefits and to select how the benefits can be measured.

125. During its review of the ICT investment plan evaluation process, the Board noted that two annual evaluations were done in 2016 and 2017 in line with the requirement of the ICT governance board. However, those evaluations did not establish a linkage of ICT projects with organization outputs and the use of defined measurements to ascertain strategic benefits. Furthermore, the Board noted that the ICT project management guidelines do not stipulate the need for assessing projects to ensure that the projects achieve strategic outputs based on defined metrics, as required in the Prince2 benefit review plan and its quality criteria.

126. Management explained that the evaluation was embedded in the process of project governance structure. Year-end evaluation is not redundant but it allows evaluating the overall return on investment of the previous road map and is a management tool to inform the decision for future road maps. However, the Board considers that UNDP needs to work on measurement of strategic benefits of each individual ICT project and not the overall return on investment of the road map. Moreover, to realize overall return on investment of the road map UNDP needs to ensure that metrics are defined to measure benefits of individual projects against strategic objectives.

127. The Board is of the view that inadequate evaluation processes of the ICT investment plan may hamper realization of returns on ICT investments.

128. **The Board recommends that UNDP: (a) use the industry best practices (Prince2, Agile, return on investment) in preparing annual evaluations of ICT road maps to ensure that project deliverables are measurable and linked to the organization's strategic outputs/priorities; and (b) update the ICT project management guidelines such that they stipulate the need for assessing projects to ensure that projects achieve strategic outputs based on defined metrics as required in the Prince2 benefit review plan and quality criteria.**

Weakness in conducting application source code reviews

129. From the review of access controls to development systems and program source codes, the Board found that UNDP is using Microsoft Team Foundation Server to enforce authorized access to program codes and secure coding. However, UNDP was not performing the formal application source code reviews which would ensure that coding practices are adhered to as per SharePoint development best practices. This deficiency was noted in four of the five applications developed in 2017. The four applications found with the deficiency include: the funding window application, the security application of 2018, the write-off asset tracker and the environmental management tool. The Board further noted that there was no mechanism to track comments from the source code reviews, which would ensure developers correct issues noted from the reviews.

130. The Board was informed that a formal source code review was conducted for large projects and projects that meet materiality thresholds. However, the Board noted the Programme and Operations Policies and Procedures for system acquisition, development and maintenance standards do not provide exceptions for small projects from source code reviews and there is no reference which defines conditions for materiality.

131. The Board is of the view that the failure to conduct source code reviews undermines the ability of UNDP to detect unsecure coding practices, which might ultimately affect performance and security of the applications.

132. **The Board recommends that UNDP: (a) specify materiality criteria and thresholds for developed applications that require formal source code review; and (b) conduct applicable source code reviews and establish a mechanism to track comments from the reviews to ensure developers correct all noted issues.**

Encryption of electronic fund transfer files residing in the network

133. Electronic fund transfer files must be encrypted in order to limit unauthorized access. At three out of six visited country offices, the Board noted that the downloaded electronic fund transfer files were not encrypted and were residing in the desktop computers of the staff responsible for downloading and uploading files to the electronic banking system. Storing electronic fund transfer files that are not encrypted may lead to unauthorized access and a possible modification by a staff member who has administrator access to the computer network and local domain. At the second country office, backup of electronic fund transfer files was not performed for future reconciliation of records, contrary to the electronic fund transfer standards which require backup files to be maintained.

134. Management at that country office explained that there is no corporate encryption tool in Atlas, but the Office of Information Management and Technology and the Treasury at UNDP headquarters have a project for a corporate encryption solution, which is expected to deliver the encryption solution later in 2018.

135. The Board considers that inadequate controls over management of electronic fund transfer files exposes the transferred funds to the risk of fraud and theft.

136. **UNDP agreed with the Board's recommendation that: (a) country offices implement the design of the electronic fund transfer interface in accordance with Atlas banking system guidelines to eliminate manual intervention and prevent unauthorized access to electronic fund transfer files residing in the network by encryption; and (b) establish a mechanism of keeping backups of electronic fund transfer files for reconciliation of records.**

Testing of disaster recovery plan and business continuity plan

137. Paragraph 56 of the UNDP information security policy requires appropriate backup arrangements, including annual testing, to be implemented and maintained to protect information and software and to ensure all critical information assets and processes can be recovered if required for any reason.

138. During its review of the management of disaster recovery and business continuity plans at the six visited country offices, the Board identified deficiencies in three of the country offices (South Africa, Egypt and Malawi). At the South Africa country office, the Board was informed that the business continuity plan at the office was last tested on 25 April 2017. However, there was no evidence to confirm that the plan was tested, since management was unable to provide a test report. In addition, the business continuity plan document was not updated, as it included staff who had left the UNDP office in South Africa. For example, a former Resident Representative who had separated from the country office was still designated as having the role of activating the business continuity and disaster recovery plans. Furthermore, the disaster recovery plan was not tested in 2017 and there was no evidence to confirm that it had ever been tested before. Management explained that testing of the business continuity and disaster recovery plans will be conducted after completing the renovations of the recovery site at UNICEF.

139. The Egypt country office had not been testing the disaster recovery and business continuity plans in accordance with the ICT security policy, and it was not until November 2017 when the Board was conducting its interim audit that the latest tests were conducted. Before that, the last disaster recovery plan test was conducted in August 2016 for Internet connectivity and in February 2015 for restoration of the active directory, rather than annually as recommended under the ICT security policy. The business continuity plan was tested once, during its formulation in 2009.

140. At the Malawi country office, the business continuity plan was yet to be approved and the disaster recovery plan had not been prepared. Management agreed to approve the business continuity plan and prepare the disaster recovery plan to reflect the current operating environment.

141. The Board considers that lack of disaster recovery and business continuity plans or having untested plans limits the level of assurance to be obtained on whether procedures in place for disaster recovery and business continuity will suffice for the organization to recover in a timely manner in the event of a disaster.

142. **UNDP agreed with the Board's recommendation that the South Africa and Egypt country offices: (a) strengthen controls over information security to ensure that the disaster recovery and business continuity plans are tested on time and test results are documented; and (b) review and update the business continuity plan on time.**

143. **In addition, the Board recommends that the Malawi country office prepare and use approved versions of the business continuity and disaster recovery plans.**

Alternative recovery site and off-site storage facility

144. The ICT disaster recovery standards for UNDP offices require the offices to have a formal off-site storage arrangement, with documented procedures on depositing and withdrawing backup media, spare equipment and other information that facilitates recovery. A reasonable level of protection against unauthorized access and tampering is to be provided for the items deposited to an off-site storage facility.

145. During its visit to South Africa, the Board found that while the country office had no recovery site, it had initiated discussions with another United Nations agency

to provide the recovery site. The Board further noted that the country office had a memorandum of understanding with a company that offered an off-site storage facility for data backup tapes, but the memorandum of understanding had expired in 2011 without being renewed. The company continued to offer the off-site storage service for data backup tapes. In the absence of a memorandum of understanding to govern the arrangement, the company may not be held accountable for its actions in case it fails to protect properly the information in its custody.

146. The Malawi country office had an informal agreement with another United Nations agency for provision of an off-site facility service. This arrangement was not supported by a signed contract to formalize the agreement by defining the roles and responsibilities of both parties. In addition, the country office was not using the off-site facility to store infrastructural documentation, such as logical and physical network diagrams, the administrative credentials for all critical ICT systems and the software required for recovery procedures along with necessary licence keys. The country office explained that it had planned to conduct follow-up with the other agency on the server room renovations and the signing of a formal agreement for the off-site storage facility.

147. **UNDP agreed with the Board's recommendation to ensure that the South Africa country office: (a) speed up the process of establishing a recovery site; and (b) renew the memorandum of understanding with the company that is providing the off-site storage facility.**

148. **UNDP also agreed with the Board's recommendation to ensure that the Malawi country office: (a) establish a documented agreement with the other United Nations agency for the provision of the off-site facility; and (b) store off-site the infrastructural documentation, administrative credentials for all critical ICT systems and the software required for recovery procedures with its licence keys.**

Adequacy of the information and communications technology workplan

149. The UNDP ICT manual for operations managers explains that developing the ICT unit plan is an important step in planning activities. The ICT unit plan lists planned activities defined in the annual plan and adds the time component. The ICT unit plan defines the responsibilities for each timespan and the resources required for each planned activity. While the annual plan describes planned activities, offers options and explains their advantages, the ICT unit plan is task-oriented and tends to define what is done, when it is done and who is responsible.

150. At the South Africa country office, the Board reviewed annual ICT operations and noted that the ICT strategic and operational plans were prepared in October 2017. These plans did not provide the start date of activities, and some activities, such as Microsoft Onedrive training for staff members, which were implemented prior to October 2017, were not covered. The Board is concerned that activities that were implemented before preparing the plan were not monitored effectively and thus their objectives might not be achieved. In addition, the training on Onedrive was not conducted for all staff, and as a result staff continued to store their files on the local drive contrary to the corporate strategy. Management explained that the plan was prepared following an audit request made earlier in October 2017. The Board is concerned that the inadequate ICT workplan may affect timely completion of activities and achievement of business objectives.

151. **UNDP agreed with the Board's recommendation that the South Africa country office: (a) update the ICT workplan to include important key items like timelines and assigned activities to staff; and (b) perform periodic reviews and monitoring on the implementation of the ICT workplan.**

Logging of information and communications technology support requests

152. The support service section of the ICT manual for operations managers provides that UNDP is working to improve its service delivery mechanisms, in accordance with industry standards such as the Information Technology Infrastructure Library, on the basis of which all problems, regardless of the method used to identify and report them to the service desk, must be logged with all relevant details, including date and time, user information, description, related configuration item, associated incidents, resolution details and closure information.

153. The Board reviewed the ICT annual workplans and procedures for logging of ICT support requests at the six visited country offices. The review revealed that at the Turkey, Turkmenistan and South Africa country offices, most activities were recurring support activities for staff of UNDP and other United Nations agencies, and that therefore the requests for these services were not logged by the ICT help desk. Because of the lack of logging of requests, there was no record indicating relevant information such as the name of the requester, the request date, the issue resolved and a description of the issue. These details could help in performance measurement of the ICT team for continued recognition of the value of ICT. Moreover, keeping such records would serve as lessons learned for ICT support personnel, as well as serve as a means to identify security risk incidents and help to effectively keep track of the status of support calls.

154. Management explained that the Turkey country office was evaluating a third-party application for recording ICT support requests, which is an additional application in the corporate SharePoint software. Currently, staff use telephones, in-person visits and emails to communicate their requests. Regarding ICT-related service requests from other United Nations agencies, the country office stated that it has a mechanism where all requests come through a service request form by email. For the Turkmenistan country office, management explained that the office has a help desk web tool, but users prefer to request support by emails or telephone calls, so the web tool was deactivated. For the South Africa country office, the licence for the application it was using to log requests had expired and no funds were available to renew it. While the Board notes these management explanations, it considers that there were no appropriate efforts to ensure that staff adapt the tools or to acquire user-friendly tools that are effective for managing requests and keeping track of requests made.

155. The Board is of the view that keeping records of user support requests will help UNDP to realize the value of ICT services and use the records as inputs for setting performance measurement indicators for ICT units.

156. **The Board recommends that the UNDP country offices in Turkey, Turkmenistan and South Africa consider introducing a mechanism to receive and record ICT support requests in accordance with the requirements of the Information Technology Infrastructure Library.**

Lack of secondary Internet link for connectivity backup

157. Internet connectivity is one of the critical systems in achieving business objectives as described in the disaster recovery plan of the South Africa country office, since downtime of the Internet connection would negatively affect all major applications.

158. The Board noted that the country office has one Internet link in the data centre, which is shared with 15 United Nations agencies in the building. It has no secondary Internet link to act as a backup in case of an Internet failure by the service provider. The Board also observed slowness of the Internet because of the low bandwidth of

the existing Internet connections of UNDP and other United Nations agencies. Management explained that the country office has already identified another Internet service provider with a higher bandwidth, and thus in future the current link will be used as a secondary link while the new link will be the primary link.

159. The Board is of the view that lack of a secondary Internet link and slow Internet speed can disrupt business operations and affect the attainment of business objectives in a timely manner.

160. UNDP agreed with the Board's recommendation to ensure that the South Africa country office establish a backup Internet link and increase Internet bandwidth.

C. Disclosures by management

1. Write-off of losses of cash, receivables and property

161. The Administration informed the Board that in accordance with UNDP financial rule 126.77, UNDP had write-offs in an amount of $255,681 in 2017.

2. Ex gratia payments

162. As required by UNDP financial rule 123.01, the administration reported ex gratia payments for the period under review amounting to $2,640.

3. Cases of fraud and presumptive fraud

163. In accordance with the International Standards on Auditing (ISA 240), the Board plans its audits of the financial statements so that it has a reasonable expectation of identifying material misstatements and irregularities (including those resulting from fraud). Our audit, however, should not be relied upon to identify all misstatements or irregularities. The primary responsibility for preventing and detecting fraud rests with management.

164. During the audit, the Board makes enquiries of management regarding its oversight responsibility for assessing the risks of material fraud and the processes in place for identifying and responding to the risks of fraud, including any specific risks that management has identified or brought to its attention. The Board also inquires as to whether management has any knowledge of any actual, suspected or alleged fraud, and this includes enquiries to the Office of Audit and Investigations. The additional terms of reference governing external audit include cases of fraud and presumptive fraud in the list of matters that should be referred to in the audit report.

165. In 2017, UNDP reported 64 cases of fraud or presumptive fraud to the Board, with an estimated loss of $693,348. Of the 64 cases, UNDP had already resolved four cases (valued at $1,096), while 60 cases (valued at $692,252) were still pending. There was no amount recovered in 2017 from the four resolved cases. The details of all the cases are provided in annex II to the present report. The Board considers that UNDP needs to thoroughly review the underlying circumstances that led to the cases, identify the possible gaps and develop a comprehensive anti-fraud strategy to minimize fraud risks and associated loss.

D. Acknowledgement

166. The Board wishes to express its appreciation for the cooperation and assistance extended to its staff by the Administrator of the United Nations Development Programme and his staff.

(*Signed*) Rajiv **Mehrishi**
Comptroller and Auditor General of India
Chair of the Board of Auditors

(*Signed*) Mussa Juma **Assad**
Controller and Auditor General of the United Republic of Tanzania
(Lead Auditor)

(*Signed*) Kay **Scheller**
President of the German Federal Court of Auditors

24 July 2018

Annex I

Status of implementation of recommendations up to the year ended 31 December 2016

Number	Audit report year	Paragraph reference	Recommendations of the Board of Auditors	UNDP response	Assessment by the Board	Board's assessment: Implemented	Board's assessment: Under implementation	Board's assessment: Not implemented	Board's assessment: Overtaken by events
1	2016	20	UNDP agrees with the Board's recommendation that it review aged prepayments and indicators of IPSAS dashboard with a view to reconfigure the IPSAS dashboard in order to accommodate the prepayments from contracts whose delivery period exceed 180 days without "red rating" them. Thus, the IPSAS dashboard could "red rate" only the prepayments that exceeded the delivery due dates indicated in their contracts instead of using 180 days as the red-rating cut-off for all types of prepayments.	UNDP shared with the Board the link to the new dashboard indicator on prepayments. The two prepayment indicators were revised in 2017 during the roll-out of the financial performance dashboard in the new power business intelligence platform. The ageing of prepayments is now based on purchase order delivery date, in accordance with the definitions of the two indicators below, which are contained in the dashboard user guide and can be accessed using the link. The indicator of past due prepayments (number) measures the number of prepayment vouchers that have not been closed within 30 days from the last purchase order delivery date. Deleted and closed pre-payment vouchers are excluded from the criteria. This is a cumulative indicator and will be rolled forward until the prepayment vouchers are closed. The rating criteria are: (a) no instances (green); and (b) one or more instances (red). The indicator of past due prepayments (United States dollars) measures the dollar value of prepayment vouchers that have not been closed within 30 days from the last purchase order delivery date. Deleted and closed pre-payment vouchers are excluded from the criteria. This is a cumulative indicator and will be rolled forward until the prepayment vouchers are closed. The rating criteria are: (a) none (green); and (b) >$0 (red).	Implemented. The Board reviewed the financial performance dashboard (in the power business intelligence platform) and found that the recommendation has been implemented, since the ageing of prepayments is based on purchase order delivery dates in accordance with the definition of the two rating criteria, i.e. (a) no instances (green); and (b) one or more instances (red). The indicator of past due prepayments (United States dollars) measures the dollar value of prepayment vouchers that have not been closed within 30 days from the last purchase order delivery date. There are definitions of the columns shown in power business intelligence reports, whereby the ageing of prepayments is now based on purchase order delivery dates. In this case, the recommendation has been implemented.	√			

Number	Audit report year	Paragraph reference	Recommendations of the Board of Auditors	UNDP response	Assessment by the Board	Board's assessment			
						Implemented	Under implementation	Not implemented	Overtaken by events
2	2016	24	UNDP agreed with the Board's recommendation that it (a) enhance monitoring of trust funds and review the status of their projects in order to determine which trust funds are inactive and (b) close in a timely manner all trust funds identified as inactive.	All trust funds identified by the Board in 2016 have since been closed (see uploaded list).	The Board verified and noted that UNDP had closed all inactive trust funds reported in the long-form report of the Board of 2016. Therefore, the recommendation has been fully implemented.	√			
3	2016	29	The Board recommends that UNDP, in consultation with the actuary: (a) determine the threshold for significant change in the population of the after-service health insurance enrolment records which would require performance of a full census of staff for the valuation of after-service health insurance liability at year end; and (b) include in the actuarial report the estimated change in population as a part of the key information.	UNDP raised the issues before the United Nations system at the task force meeting in Rome (where the Board was in attendance) and has requested the United Nations to include the necessary information and thresholds in the 2017 valuation. The following was presented and has been communicated to the United Nations directly: (a) With regard to the actuarial valuation in roll-forward years, the need to define a threshold for what constitutes a significant change in population. Without this, the Board has called into question our ability to use and rely on the roll-forward approach, given that we have not determined the threshold for a significant change in the population in the after-service health insurance enrolment records, which would trigger/require the performance of a full valuation of after-service health insurance liability at year-end (i.e. a threshold determined before confirmation of a change in population); (b) The request to the United Nations to work with our actuaries (Ernst Young) to include in the actuarial report the estimated change in population as part of the key information.	(a) Implemented: UNDP has established a threshold (i.e. 232 retirees) above which it will require a full census of staff for valuation of the after-service health insurance liability at year-end. (b) In progress: the Board considers the implementation of the recommendation to be in progress since initiatives being carried out by UNDP have not been concluded.		√		

Number	Audit report year	Paragraph reference	Recommendations of the Board of Auditors	UNDP response	Assessment by the Board	Board's assessment			
						Implemented	Under implementation	Not implemented	Overtaken by events
4	2016	30	The Board also recommends that in future, UNDP obtain confirmation from the United Nations on retiree after-service health insurance enrolment records as part of year-end certifications and reconcile the differences (if noted) with records in Atlas, the actuarial valuation report and corresponding after-service health insurance liability in the financial statements.	UNDP has approached the United Nations and proposed that a shared standard operating procedure be developed that will address the certification and periodic reconciliation of enrolment records. The standard operating procedure and United Nations certification were shared with the Board.	Implemented. In the final audit of 2017, the Board noted a formal certification of after-service health insurance enrolment records dated 9 April 2018 from the United Nations. In addition, UNDP developed a standard operating procedure to manage certification and reconciliation of after-service health insurance enrolment records with the United Nations.	√			
5	2016	34	UNDP agreed with the Board recommendation that it (a) verify and transfer the noted liabilities of malicious acts insurance policy premiums and medical insurance premiums to proper accounts codes and (b) clear these long-outstanding liabilities on time.	Remaining balance was analysed and necessary adjustments in Atlas were processed on 30 November 2017.	Journal vouchers for adjusting entries were processed in Atlas on 30 November 2017. Therefore, the recommendation has been fully implemented.	√			
6	2016	39	The Board recommends that UNDP ensure that the Honduras and Bangladesh country offices (a) continue to liaise with implementing partner counterparts so that those offices fully own the United Nations Development Assistance Framework process and thereby facilitate timely Development Assistance Framework implementation, annual reviews and progress reviews and (b) consider adopting strategies to enable the United Nations Development Assistance Framework annual reviews and progress reports in the next programme cycle to be completed on time.	(a) UNDP shared the current United Nations Development Assistance Framework for Bangladesh, as well as minutes from a United Nations country team retreat in Bangladesh, in January 2018 as evidence of the active management of the Framework in Bangladesh. The Honduras country office had meetings (e.g. on 23 July 2017) of the national steering committee between the Government and the United Nations system where the United Nations Development Assistance Framework workplan was presented and approved. (b) UNDP will follow up with the United Nations country team and the office of the Resident Coordinator to enable timely United Nations Development Assistance Framework annual reviews in the next programme cycle.	The Board noted further progress made by the Bangladesh country office as it developed the new United Nations Development Assistance Framework for 2017–2021. On 1 February 2018 there was a retreat of the United Nations country team where, among other issues, the contribution of the new Framework in achieving the 2030 Agenda for Sustainable Development in Bangladesh was discussed, and in March 2018 the steering committee for the Framework was reconstituted. The Board also acknowledges actions taken by the Honduras		√		

Number	Audit report year	Paragraph reference	Recommendations of the Board of Auditors	UNDP response	Assessment by the Board	Board's assessment			
						Implemented	Under implementation	Not implemented	Overtaken by events
					country office in having meetings of the national steering committee between the Government of Honduras and the United Nations system. However, in 2017 the Board noted cases similar to those reported in 2016, whereby monitoring and evaluation activities for the United Nations Development Assistance Framework were not done on a timely basis, as found by the Board in the Paraguay country office. In addition, the South Africa and Egypt country offices delayed the performance of annual and mid-term reviews of the Framework and delayed responding on evaluation recommendations related to the Framework. In this regard, these recommendations are in progress.				
7	2016	44	The Board recommends that UNDP (a) introduce a clause in the cooperation agreements on the communication obligations of all parties involved in programme implementation, including measures for motivating implementation of those obligations, and (b) increase follow-up with counterparts so as to ensure that appropriate measures are taken to address the recurrence of delayed certification of combined delivery reports by both UNDP and implementing partners.	In 2017, the Programme and Operations Policies and Procedures on combined delivery reports were updated to reflect the following: (a) Combined delivery reports will be sent to implementing partners for verification and signature only for the second, third and fourth quarters of the year. The combined delivery report for the second quarter will cover expenses incurred from January to June. (b) Combined delivery reports should be sent to the implementing partner with a request for certification within 15 calendar days. If no response is received within 30 days, a follow-up request should be sent indicating that the combined delivery report will be deemed accepted by the implementing partner if a	Management efforts are appreciated. Part (a) is implemented. Although no clause was introduced in the cooperation agreements regarding communication of the obligations of all parties, the Board noted that the Programme and Operations Policies and Procedures on combined delivery reports was updated to introduce controls that will act as motivation for certification of combined delivery reports on time and updates were applicable in 2017.		√		

Number	Audit report year	Paragraph reference	Recommendations of the Board of Auditors	UNDP response	Assessment by the Board	Board's assessment: Implemented	Board's assessment: Under implementation	Board's assessment: Not implemented	Board's assessment: Overtaken by events
				response is not received within 15 calendar days from the date of the follow-up request. (c) The combined delivery report, certified by the authorized official of the implementing partner or evidence of follow-up where no responses are received, should be uploaded to the combined delivery reports library (in the UNDP corporate planning system) immediately upon receiving the certification from the implementing partner but no later than 45 calendar days after the end of each quarter.	Part (b) is still under implementation, since in the interim audit of November 2017, the Board continued to note delays in combined delivery report certifications at visited country offices (e.g. Turkmenistan and Paraguay). Therefore, the recommendation is classified as under implementation.				
8	2016	51	The Board recommends that UNDP ensure (a) timely review and updating of project risks, issues and monitoring logs and document this in Atlas as the primary source of project information and (b) that project boards conduct regular meetings as a means of continuously monitoring project implementation.	This is an important recommendation that will require consistent reinforcement in such a large and decentralized development organization. To systematically address this, UNDP incorporated the core requirements of effective project management, including risk management, monitoring and project governance, into the new quality standards for programming and quality assurance rating tools. These elements were added to the quality system in direct response to learning from audit. The quality standards provide clear expectations on requirements for quality project implementation, including the need for rigorous risk management, active monitoring, using evidence and learning for decision-making, and functioning project boards. A recent evaluation on the quality standards found that the system has led to a shift in awareness of the requirements necessary for quality project management, as 76 per cent of quality assessors have used the tool for learning in its first year. Programming staff holding the quality assurance function rated the quality of the 3,500 UNDP active development projects for the first time, and UNDP now has data on the performance of all development projects. Regarding risks, monitoring and governance, the	The Board recognizes the efforts by UNDP in addressing this recurring recommendation at the corporate level. The introduction of the quality assurance system for projects is a commendable achievement. Despite the new development of the quality assurance system, the Board still noted the recurrence of similar findings in the country offices it visited in 2017. The Board will assess the progress of how the system addresses the recommendation after it has been applied consistently across the country offices. The Board will also need to assess how this complies with the Programme and Operations Policies and Procedures, which still recognize Atlas as the primary source of project information and which have not yet been replaced by the project quality assurance system in the corporate planning system.		√		

Number	Audit report year	Paragraph reference	Recommendations of the Board of Auditors	UNDP response	Assessment by the Board	Board's assessment			
						Implemented	Under implementation	Not implemented	Overtaken by events
				data shows that 16.8 per cent of projects have not adequately completed their risk logs, 11.7 per cent of projects do not have well-functioning project boards and 15.2 per cent are not actively monitoring project results.					
9	2016	56	The Board recommends that (a) the Republic of Moldova country office update information in the Evaluation Resource Centre in a timely manner and (b) that UNDP headquarters consider establishing a time frame for the updating by country offices of key actions in the Evaluation Resource Centre.	The Republic of Moldova country office will: (a) take action to ensure that information is updated in a timely manner in the Evaluation Resource Centre; and (b) ensure that all evaluations have management responses that include time-bound key actions and that the status of implementation will be regularly updated in the Evaluation Resource Centre.	(a) The Board reviewed the Evaluation Resource Centre and found information for the Republic of Moldova was updated on time. (b) In addition, management established that country offices are required to update key information in the Evaluation Resource Centre on a monthly basis.	√			
10	2016	62	UNDP agreed with the Board recommendation that it review the documents for the two projects so as to accommodate the period of delay and ensure that the projects are completed within the scheduled time period.	Both project's annual workplans have been revised to address the delay in the start of implementation. As a result of this revision, the initial end date still remains the same as planned.	Implemented based on action taken. The annual workplans of both projects at the Bangladesh country office have been revised and shared with the auditors.	√			
11	2016	69	UNDP agreed with the Board recommendation that it (a) take proactive measures to ensure that all operationally closed projects are financially closed within 12 months, in accordance with the Programme and Operations Policies and Procedures, which would entail obtaining in a timely manner donors' approvals on refunds or reprogramming of unspent amounts; and thoroughly review and effect all transactions related to projects before they are financially closed; and (b) ensure that all asset balances are cleared before projects are financially closed.	UNDP will: (a) obtain donor approvals in line with standard donor agreement stipulations on refunds and reprogramming of unspent balances; and (b) continue to ensure that asset balances are cleared before projects are financially closed.	The Board noted the list of closed projects for the Bangladesh country office. However, in the audit for 2017, the Board noted cases, for example in Paraguay, where projects were not closed in a timely manner and their project assets were transferred. Therefore, the Board considers this recommendation to be under implementation.		√		

Number	Audit report year	Paragraph reference	Recommendations of the Board of Auditors	UNDP response	Assessment by the Board	Board's assessment Implemented	Under implementation	Not implemented	Overtaken by events
12	2016	74	The Board recommends that UNDP (a) ensure that inactive projects in Bangladesh and all country offices are closed in line with the Programme and Operations Policies and Procedures and (b) obtain, in a timely manner, donors' endorsements on final reports; approvals so that the last tranche or portion of funds can be disbursed to the country office and approvals so that the remaining project funds can be refunded to donors or reprogrammed, in order to ensure that all projects are closed on time.	Based on the audit finding, the Bangladesh country office has increased its monitoring of open projects. The report with the latest status of closed projects was shared with the Board, where the projects in question were closed. Better coordination with donors regarding final reports, refunds and other matters has helped in closing the respective projects and will help to ensure a more timely closure in the future.	Implemented based on the action plan. The Board reviewed the Bangladesh country office project status and noted that the inactive projects have been closed, and that confirmation with donors' final reports, refunds and other items were obtained and/or considered.	√			
13	2016	77	UNDP agrees with the Board's recommendation that it (a) review the basis, criteria and guidelines used for determining the percentage of administrative agent fees apportioned to central services; and (b) also review the Multi-Partner Trust Fund Office policy (on administrative agent fee income) and the justification for the basis and criteria for apportioning the administrative agent fees between the Trust Fund Office and UNDP country offices that have received a delegation of authority from the Trust Fund Office Executive Coordinator.	To assess the overall cost-recovery practice for service provision to all agencies, including the Multi-Partner Trust Fund Office, the UNDP Bureau for Management Services commissioned a study in 2017. The study recommended that the Bureau apply the full-cost methodology. To implement the full-cost methodology, the Bureau has developed a project initiation document. As indicated in that document, the whole plan is still being finalized and is expected to be implemented only by December 2018. The adoption of a full-cost methodology will help the Bureau to ensure that all costs are fully recovered for all service provision by applying a standardized methodology and providing clear rationality on each cost component, while ensuring that the Multi-Partner Trust Fund Office, as a recipient of services, will have a transparent overview of the costs of services being provided and the criteria and guidelines that determine the costs of these services. In November 2017, the Multi-Partner Trust Fund Office communicated its decision to recentralize	The Board verified the submitted documents and noted that in 2017 UNDP conducted a study on the application of cost accounting principles for services to United Nations agencies. However, UNDP had not fully implemented the audit recommendations since the full-cost recovery would be implemented by December 2018. Furthermore, after effecting the necessary changes in the policy regarding administrative agency fee income (as a result of the study) UNDP has to share with the Board the updated approved policy on such fee income. In this regard, the recommendation is considered to be under implementation.		√		

Number	Audit report year	Paragraph reference	Recommendations of the Board of Auditors	UNDP response	Assessment by the Board	Board's assessment			
						Implemented	Under implementation	Not implemented	Overtaken by events
				all administrative agent functions and informed all concerned UNDP country offices that as of 31 December 2017 the existing delegation of authority would be considered to be revoked. As a result of this policy decision, as at 1 January 2018 there is no justification for any further apportionment of administrative agent fees to UNDP country offices, and the earlier practice has ceased to exist.					
14	2016	82	The Board recommends that the Bangladesh, Honduras and Uruguay country offices (a) liaise with other United Nations agencies using the harmonized approach to cash transfers to resolve the challenges noted and prepare joint harmonized approach to cash transfers assurance plans for shared implementation partners; and (b) ensure that those assurance plans are both endorsed by the country representatives and implemented.	The three country offices, through the joint harmonized approach to cash transfers committee meeting, will: (a) accelerate preparation of 2017 joint harmonized approach to cash transfers assurance plans in line with the Programme and Operations Policies and Procedures; and these will (b) be endorsed by the country representatives of relevant agencies.	The Board reviewed the minutes of the Bangladesh United Nations country team meeting of 30 August 2017, where the findings of the harmonized approach to cash transfers macroassessment report were presented. However, the Board has not received: (a) the joint harmonized approach to cash transfers assurance plans for shared implementation partners in the Bangladesh, Honduras and Uruguay country offices; or (b) the prepared joint harmonized approach to cash transfers assurance plans endorsed by the country representatives and implemented in those three country offices.		√		
15	2016	87	The Board recommends that UNDP ensure that for the next programme cycle, the harmonized approach to cash transfers assurance plan for the Honduras country office (a) is prepared at the beginning of the programme cycle, approved by the country director or resident representative and updated annually	The country office will: (a) prepare the harmonized approach to cash transfers assurance plan, ensure it is approved and update it annually for the next cycle, 2017–2021; and (b) ensure it is in compliance with the requirements of the harmonized approach to cash transfers.	Both part (a) and part (b) of the recommendation have been fully implemented. The Board: (a) reviewed the Honduras harmonized approach to cash transfers assurance plan for the cycle 2017–2021, which was duly approved by the Resident Representative on 21 February	√			

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			and (b) includes all required details such as implementing partner risk ratings, and cash transfer modalities.		2018, and (b) noted that the assurance plan is properly prepared to include required details such as implementing partner risk ratings and cash transfer modalities.				
16	2016	92	The Board recommends that UNDP (a) perform regular vendor data checks so as to maintain accurate and up-to-date data, including removal of duplicate active vendors (b) ensure regular review and correction of vendors' bank information so as to eliminate the existence of vendors with the same bank account numbers and (c) review transactions processed through accounts shared by multiple vendors to ensure that no inappropriate transactions are included.	(a) Regular data clean-ups in 2017 as part of the ongoing supplier of interest project have reduced the number of payees in the enterprise resource planning system by 50 per cent. The project was launched in October 2016 to enhance vendor management. Archiving of inactive vendors has been improved, the period has been reduced to two years from three years and the process is automated through a batch process which is run on a quarterly basis and archives vendors that have been inactive for two years. (b) and (c) The vendor management workbench launched in December 2017 enables country offices to identify and rectify missing information and/or errors in vendor records. The system introduces mandatory fields, such as addresses and telephone numbers. With the new system, all vendors with errors or missing information will have to be updated before the vendor record can be utilized. The mandatory fields will be activated in the enterprise resource planning system on 2 February 2018. In November 2017, the Office of Audit and Investigations performed testing of duplicate vendors and shared vendor bank accounts for a sample of five countries. The results were compared with those of the 2016 audit and improvements were noted.	The Board verified the measures explained by management and confirmed that the recommendation has been implemented.	√			

Number	Audit report year	Paragraph reference	Recommendations of the Board of Auditors	UNDP response	Assessment by the Board	Board's assessment			
						Implemented	Under implementation	Not implemented	Overtaken by events
17	2016	97	The Board recommends that UNDP (a) review time anomalies in the procurement dashboard and update so as to ensure greater accuracy, completeness and reliability of its information; (b) input reasonable delivery due dates during requisition; and (c) enhance follow-up with vendors to ensure that goods or services are delivered within the scheduled period and appropriate measures are taken against non-performing vendors, including enforcement of penalties under the contracts.	(a) The Procurement Services Unit has removed some of the indicators that provided inaccurate information. As an alternative, the relaunched financial performance dashboard now includes indicators that are related to purchase orders, receipt and payment activities; past due milestones; delayed Atlas receipts; approved purchase orders not dispatched; purchase orders with no Atlas receipts; and monitoring of purchase orders without a receipt. (A link to the financial performance dashboard, which requires users to log in, was provided to the Board.) Furthermore, a procedure is now in place to update the certification indicator in the procurement dashboard. The data is provided by the Learning Management System and the Chartered Institute of Purchasing and Supply on a regular basis and the Office of Information Management and Technology updates the indicator in the procurement dashboard. (b) and (c) Country offices have been reminded to indicate reasonable delivery dates at the requisition stage. In addition, the financial performance management as described in (a) above now includes indicators on receipt and payment activities; past due milestones; delayed Atlas receipts; purchase orders with no Atlas receipts and the ability to monitor purchase orders without receipts. All these indicators enable the country offices to review and monitor the delivery due dates regularly as part of the compliance requirements on the dashboard and this feeds into a performance rating for each country office. The UNDP contract management policy guides country offices in dealing with vendors and was launched in June 2017. It includes standard roles and responsibilities (pp. 7–10) of all internal stakeholders in the contract management process.	During its audit in April 2018, the Board reviewed the developments in the vendor management workbench/tool in Atlas aimed, among other things, at addressing repeated audit recommendations. The Board noted a data clean-up exercise was conducted. The Board considers all parts of the recommendation as being implemented. The Board reviewed the relaunched financial performance dashboard, which includes indicators relating to procurement activities like purchase orders, receipt and payment activities and past due milestones. This dashboard has been substantially improved in comparison with the previous version regarding the non-Atlas procurement indicators. Purchase orders with delivery delays have been significantly reduced and there was no similar weakness found during the audit of 2017. Goods or services were reasonably delivered within the scheduled period.	√			

Number	Audit report year	Paragraph reference	Recommendations of the Board of Auditors	UNDP response	Assessment by the Board	Board's assessment			
						Implemented	Under implementation	Not implemented	Overtaken by events
18	2016	101	The Board recommends that UNDP strengthen reviews and monitoring of the purchase orders and accounts payable to ensure that (a) expenses recorded in the general ledger, commitment control and projects are accurate, complete and recorded in the correct accounting period; and (b) pending transactions (i.e., purchase orders, vouchers and general ledger journal entries with an accounting date on or before the last day of the month being closed) are cleared in accordance with year-end closure instructions.	In progress. There has been substantial progress, as follows: The number of pending general ledger journal entries has been reduced from 17 ($6.78 million) at the end of 2016 to zero at the end of 2017 and they are reviewed regularly as part of the quarterly and year-end financial closure processes. Accounts payable vouchers with errors are monitored on the financial performance dashboard, which is reflected in the county office corporate planning indicator rating issued and followed up with country offices on a quarterly basis. The number of outstanding accounts payable vouchers with errors decreased from 420 at the end of 2016 to 112 at the end of 2017. Payments on hold are now being monitored by the Treasury and followed up with country offices on a regular basis.	In progress. The Board reviewed the progress made by management and appreciate devoted efforts in addressing this recommendation, whereby improvements were noted in 2017 compared with figures for 2016. UNDP has to let the Board know when this recommendation is fully implemented.		√		
19	2016	107	The Board recommends that UNDP ensure that future service contract evaluations are completed on time, ideally one month prior to the contract's expiration, pursuant to policy, so as to provide offices with a reasonable amount of time for decision-making.	The Office of Human Resources has sent a reminder to human resources practitioners regarding the requirement to complete service contract evaluations on time with a "Frequently asked questions" note attached. A message from the Director of Human Resources will be sent by 31 March 2018 that includes a reminder on the timely completion of service evaluations as well as an update of the frequently asked questions on service contracts. The message and frequently asked questions will be uploaded once available.	The Board recognizes efforts made by the Office of Human Resources in this area. However, in 2017 the Board noted similar cases of delays in evaluating service contracts in the Malawi, Paraguay and South Africa country offices. The Board considers the recommendation to be under implementation.		√		
20	2016	111	The Board recommends that UNDP consider updating and enforcing the human resources policy to restrict the number of years during which a person can serve under a service contract, after which time a post should be established and filled by a person on a fixed-term appointment.	At the end of 2017, the Office of Human Resources hired a consultant to conduct a review of the contractual framework and modalities for local service contracts. A first internal draft report was recently submitted to the Office, which will be reviewed. It is expected that the final report will be completed at the end of May.	The Board noted that the consultant was hired, but is yet to complete the work in reviewing the contractual framework and modalities for local service contracts. Thus, the recommendation is under implementation.		√		

Number	Audit report year	Paragraph reference	Recommendations of the Board of Auditors	UNDP response	Assessment by the Board	Board's assessment Implemented	Under implementation	Not implemented	Overtaken by events
21	2016	116	The Board recommends that UNDP ensure that all staff members complete mandatory training courses on time.	The accountability for completion of mandatory courses lies with the head of office. The role of the Office of Human Resources is to ensure that the courses are available to staff on demand, track completion rates and trouble shoot problems staff may have in completing courses. The Office has established a mechanism to enable staff to complete the mandatory courses. Global reminders: the Office of Human Resources sends regular reminders concerning completion of mandatory course to managers worldwide. The last message sent and its attachment on completion statistics were provided to the Board. Talent Development Centre (Learning Management System): all the courses are available on demand through the Taleo online portal. Staff can complete the course in one sitting or return to it and continue where they left off. Talent Development Unit staff are available for trouble shooting and respond within 72 hours.	The Board noted efforts made by the headquarters Office of Human Resources to ensure that the courses are available to staff on demand, track completion rates and trouble-shoot problems staff may have in completing courses. However, similar shortcomings were noted in three out of six country offices visited by the Board in 2017. Thus, the recommendation is under implementation.		√		
22	2016	120	UNDP agreed with the Board's recommendation that it introduce a schedule that ensures easy reconciliation of the differences in respect of individual assets additions between the note in the financial statements on property, plant and equipment; and the in-service report.	Following the Board's recommendation to introduce a schedule to reconcile the in-service report to the note to the financial statements on property, plant and equipment, the General Operations Unit has prepared a business requirement document and initiated the project with colleagues of the Office of Information Management and Technology. However, due to the extremely large volume of property, plant and equipment general ledger data that is generated in a fiscal year, it became apparent that Atlas was not a platform that could cope with the data involved to produce the reconciliation. In order to proceed with the project, an alternative option of producing the report outside Atlas is being pursued, which is ongoing. In addition, it should be noted that at the request of the Audit and Evaluation Advisory Committee, the 2017	Management efforts are noted. The recommendation is under implementation until June 2019 when the application to properly record property, plant and equipment is expected to be completed as explained by management.		√		

Number	Audit report year	Paragraph reference	Recommendations of the Board of Auditors	UNDP response	Assessment by the Board	Board's assessment			
						Implemented	Under implementation	Not implemented	Overtaken by events
				financial statements were reported in a different format to previous years, which presents challenges to the design and implementation of the report and could prolong the process. Owing to the above factors, the implementation is expected to be in June 2019.					
23	2016	126	UNDP agreed with the Board's recommendation that it update in a timely manner the contents of the Programme and Operations Policies and Procedures on inventory management and all related guidance notes, so as to accommodate and harmonize changes pursuant to UNDP requirements before country offices start implementation of those changes.	UNDP updated both the Programme and Operations Policies and Procedures and the closing instructions on inventory.	The Programme and Operations Policies and Procedures on inventory have been updated and the closure instructions for the year 2017 do not contradict the policy. Therefore, the recommendation has been fully implemented.	√			
24	2016	130	The Board recommends that UNDP strengthen control over ICT governance to ensure that ICT projects are prioritized and funded, especially those whose aim is to mitigate high risks.	The Office of Information Management and Technology Chief Information Security Officer regularly briefs the ICT governance group on high risks, and received funding at the July 2017 meeting. The project on which this finding is based, that is, the second factor of authentication, has been funded and is currently under way.	The recommendation has been implemented as shown in the minutes of the ICT governance group meeting of July 2017, where the high risks project was funded.	√			
25	2016	133	The Board recommends that the Bangladesh country office (a) use the existing head of unit group as an ICT governance group to approve the ICT plan and budget, and monitor budget implementation and vendor performance, as well as ensure compliance with information security policy; and (b) establish formal documented procedures for access control, change control, media handling and monitoring of information systems, pursuant to the UNDP information security policy.	The country office has developed and approved ICT process flows for several processes and included budget approval and monitoring as part of the ICT governance group.	Both parts of the recommendation have been implemented.	√			

Number	Audit report year	Paragraph reference	Recommendations of the Board of Auditors	UNDP response	Assessment by the Board	Board's assessment			
						Implemented	Under implementation	Not implemented	Overtaken by events
26	2016	137	The Board recommends that the Bangladesh and Montenegro country offices improve the ICT monitoring mechanism to ensure that third-party service providers of ICT-related services maintain security plans.	The UNDP Bangladesh and Montenegro country offices have signed agreements with ICT service providers where the existence of security plans and implementation and testing is mandatory.	The Board verified signed agreements between the Bangladesh country office and service providers on the provision of a security plan and annexed it to the long-term agreement. In addition, the country office has developed the standard operating procedure. The Board also verified agreements signed with providers of ICT-related services to maintain security plans for the Montenegro country office. Therefore, the Board considers this recommendation as implemented.	√			
27	2016	140	The Board recommends that the country office consider conducting periodic maintenance of ICT equipment in use even if it is aged.	The Republic of Moldova country office will continue periodic maintenance on the aged ICT equipment and document such maintenance.	The Board noted maintenance of aged ICT equipment being done during 2017. The Board considers this recommendation as implemented.	√			
28	2016	143	The Board recommends that the Bangladesh country office (a) conduct a full disaster recovery plan test which involves all contact persons, communication procedures and document test results; (b) consider identifying a recovery site in a location that is not subjected to the same natural disaster as the data centre; and (c) install a fire suppression system and smoke detectors at the recovery site.	The country office has run a test of the disaster recovery plan and has identified a recovery site in Cox's Bazaar, which is on higher ground and about 400 km from Dhaka. The office has also installed fire suppression and smoke detection equipment at the recovery site.	The Board noted the Bangladesh business continuity plan test report of March 2018, the Bangladesh SharePoint incidence and recovery report of 31 July 2017, and the picture of fire suppression system being installed and the security cameras. Therefore, the Board considers the recommendation as implemented.	√			

Number	Audit report year	Paragraph reference	Recommendations of the Board of Auditors	UNDP response	Assessment by the Board	Board's assessment			
						Implemented	Under implementation	Not implemented	Overtaken by events
29	2016	148	UNDP agreed with the Board's recommendations that it (a) specify the recovery time objective for the domain name system and the active directory in the service delivery agreement; (b) consider amending the service delivery agreement with the International Computing Centre for the hosting of the SharePoint application to include agreed durations for recovery point and recovery time objectives; (c) ensure, under the service delivery agreement, that, even with the growing database volume, the International Computing Centre will continue to meet the recovery point and recovery time objectives as specified by UNDP; and (d) specify durations for recovery point and recovery time objectives for the mail hub, the Lyris List Manager and SwiftClient applications.	UNDP has: (a) Specified the recovery time objective for the domain name system and active directory infrastructures; (b) Included the existing recovery time objective and recovery point objective for the SharePoint hosting service directly in the service delivery agreement with the United Nations International Computing Centre; (c) Ensured that the International Computing Centre continues to meet the recovery time and recovery point objectives specified by amending the service delivery agreement; and (d) Specified the recovery time and recovery point objectives for the mail hub and swift client applications. Documentation will be kept in the Comprehensive Audit and Recommendations Database System.	The Board verified the documents that UNDP has (a) specified the recovery time objective (RTO) for the domain name system (DNS) and active directory (AD) infrastructures; (b) included the existing RTO and recovery point objective (RPO) for SharePoint hosting service directly into the Service Delivery Agreement with the UNICC; (c) assured the Board that UNICC continues to meet the RTO and RPO objectives specified by amended the SDA and; (d) specified the RTO and RPO for the mail hub and swift client applications. Therefore, the recommendation has been implemented.	√			
30	2016	154	UNDP agrees with the Board's recommendation that it (a) review all disaster recovery plans, keep track of versions, and update names of staff responsible for disaster recovery plans, (b) consider budgeting for testing the disaster recovery plans, (c) test the disaster recovery plans and document the tests conducted for untested applications and (d) include disaster recovery plan tests and reviews as activities under the workplans of all sections of the Office of Information Management and Technology that manage critical applications.	UNDP: (a) has incorporated recent organizational changes into the disaster recovery plans and has indicated review dates explicitly in those plans; (b) will ensure future operational budgets are sufficient to fund testing of disaster recovery plans; (c) has conducted and documented disaster recovery plan tests for critical systems previously untested; and (d) has included disaster recovery plan tests and reviews in the workplans of all sections in the Office of Information Management and Technology that are managing critical systems.	The Board noted evidence of: (a) updated and complete disaster recovery plans; (b) consideration in budgeting for testing the disaster recovery plans; (c) documentation of tests conducted for untested applications; and (d) inclusion of disaster recovery plan tests and reviews as activities under the workplans of all sections of the Office of Information Management and Technology that manage critical applications. Therefore, the Board considers the recommendation as implemented.	√			

Number	Audit report year	Paragraph reference	Recommendations of the Board of Auditors	UNDP response	Assessment by the Board	Board's assessment			
						Implemented	Under implementation	Not implemented	Overtaken by events
31	2016	158	UNDP agrees with the Board's recommendation that it conduct orientation training for business continuity plan focal points.	The Bureau for Management Services revised the business continuity management policy and has also invited all business continuity plan focal points to a training event to be held on 27 April 2018. The updated business continuity management policy is available from https://popp.undp.org//SitePages/POPPSubject.aspx?SBJID=440. The launch message for the updated policy — and the iavitation to the business continuity plan focal points for the training on 27 April 2018 were provided to the Board.	The recommendation has been implemented. The Board noted that the business continuity plan training took place on 27 April 2018 where 17 participants from different bureaux and units participated.	√			
32	2016	164	UNDP agrees with the Board's recommendation that it enhance performance of control activities in quality assurance for ICT projects to ensure that (a) projects comply with quality assurance standards at all stages by having the proper project plans, project initiation documents and business case documents; (b) projects are not initiated without appointing a quality assessor; (c) a quality approver is appointed for each project to ensure the accountability of the assessor; and (d) the quality assurance checklist is developed at each stage of the project, especially at the initiation and closure stages; and that the checklist is completed and approved before the project advances to the next stages.	The Office of Information Management and Technology ensures that projects comply with quality assurance standards at all stages by having proper project plans, project initiation documents and business case documents. (a) UNDP programme projects follow programme-specific quality management standards. UNDP ICT projects comply with Prince2 and/or Agile quality assurance standards at all stages by having proper project plans, project initiation documents and business case documents, and are tracked thorough a LENS (logistics expectations number and status) report. (b) Since 2017, all projects are initiated with a quality assessor, the project management focal point, which is handled by the portfolio management specialist, the quality assurance specialist and the Chief of the Portfolio Management Office. (c) The quality approver role is performed by the project board of each project. The responsibility is defined in the quality management metrics in the project initiation document templates. The quality assurance checklist is developed at each stage of the	Through its review of documents, the Board confirmed that: (a) projects complied with quality assurance standards at all stages, with required documentation; (b) projects were being initiated after appointing the quality assessor; (c) quality approvers were appointed for projects to ensure the accountability of the assessor; and (d) quality assurance checklists at each stage of the project were being developed and the checklists were being completed and approved before the project advanced to the next stages. Therefore, the Board consider that the recommendation has been implemented.	√			

Number	Audit report year	Paragraph reference	Recommendations of the Board of Auditors	UNDP response	Assessment by the Board	Board's assessment			
						Implemented	Under implementation	Not implemented	Overtaken by events
				project, especially at initiation and closure, which ensures the checklist is completed and approved before the project goes to the next stage. (d) The quality assurance checklist, called the calculated index, is integrated in the LENS (logistics expectations number and status) report every month. In addition, the change and testing coordinator reviews the test plan, manages change and testing, and coordinates the release. This information is shared in the change control board meetings.					
33	2015	35	UNDP agreed with the Board's recommendation to ensure that operating units: (a) prepare accounts payable vouchers before the deadline, as stipulated in the year-end closure instructions, so as to liquidate corresponding aged prepayments; and (b) regularly monitor and perform prepayment spot checks so as to verify and clear aged prepayments in a timely manner.	Concerning (a), UNDP would like to emphasize that accounts payable vouchers that clear prepaid amounts can be raised only when the goods are received, an issue that has been closely monitored through the certification process. The existing aged prepaid amounts are valid and are related mainly to pharmaceutical products (70 per cent of the prepayments in total are related to the Global Fund to Fight AIDS, Tuberculosis and Malaria, while close to 80 per cent of the prepayments outstanding for more than 180 days concern Global Fund-related pharmaceutical products) with a longer lead time and a voucher cannot be raised in accounts payable unless the good have been received. The December 2015 status as at 5 January 2017 was shared with the Board. Concerning (b), prepayments, irrespective of their age, have been regularly monitored throughout 2016. Particular attention was paid to aged prepayments in the periodic certification process and quarterly one-page notes are sent out to country offices on key areas that are monitored by the Office of Financial Resources Management. Vigorous follow-up with offices that had aged items was carried out to ensure	The Board recognizes the following-up and efforts made by management to regularly monitor prepayments. The Board noted that as at 31 December 2016, the IPSAS dashboard had 35 prepayment vouchers valued at $13.7 million which had not been cleared by the operating units for more than 180 days from the scheduled dates of payment (2015: $4.2 million). This recommendation was noted in the Board's long-form report for 2016 and remains outstanding since there are still uncleared aged prepayments.		√		

Number	Audit report year	Paragraph reference	Recommendations of the Board of Auditors	UNDP response	Assessment by the Board	Board's assessment			
						Implemented	Under implementation	Not implemented	Overtaken by events
				that the aged items are receipted and immediately liquidated in line with Programme and Operations Policies and Procedures requirements for receipting. (A sample of actions was shared with the Board.) As at 31 December 2016, approximately 70 per cent of the prepayments were related to the Global Fund, which usually has a much longer lead time for delivery than 180 days, which is the dashboard cut-off for the red rating. Hence, the existing aged prepaid amounts are valid and a voucher cannot be raised in accounts payable unless the goods are received.					
34	2015	41	UNDP agreed with the Board's recommendation that: (a) in future, UNDP plan ahead regarding the changes needed in project settings, such as the rates of the general management support fee, to minimize delays in signing quarterly combined delivery reports; (b) it submit the combined delivery reports in a timely manner, duly signed by UNDP and implementing partners, in compliance with the Programme and Operations Policies and Procedures; and (c) it liaise with implementing partners on their accountability regarding the timely signing of combined delivery reports when delays are encountered.	System changes regarding general management support can only commence after the executive group makes its final decision. The Executive Board decision regarding changes to internal general management support distribution was made at a meeting in February 2016 and officially communicated in March 2016, after which the changes to general management support testing in line with system change procedures commenced. All offices were informed of the delay in monthly posting of general management support during the first quarter and the first posting in May 2016. This is timely, as UNDP targets closure of quarters 2.5 months after the end of every quarter. Being able to post first-quarter general management support changes two months after the quarter is an achievement. Concerning (b) and (c), a combined delivery report repository was launched to enable country offices to upload signed combined delivery reports and a reminder message sent out according to the agreed management action. Management considers this recommendation fully implemented.	The Board noted the system changes regarding general management support and considers part (a) of the recommendation to be fully implemented. However, for parts (b) and (c) of the recommendation, the Board has continued to note delays in signing the combined delivery reports by UNDP and implementing partners during the 2017 audit. Therefore, the Board considers this recommendation as under implementation.		√		

					Board's assessment			
Number	Audit report year	Paragraph reference	Recommendations of the Board of Auditors	UNDP response	Assessment by the Board	Implemented	Under implementation	Not implemented	Overtaken by events
35	2015	72	UNDP agreed with the Board's recommendations that it (a) enhance and document the follow-up mechanisms, including feedback from all delayed participating organizations, for future improvements; (b) introduce measures to accelerate the operational and financial closure of all overdue projects; and (c) as the largest United Nations fund administration service provider, propose the idea of common policies and procedures for inter-agency pooled funding mechanisms to harmonize practices so as to enhance accuracy in reporting and timing of issuing reports.	The Multi-Partner Trust Fund Office has continued to implement the enhanced follow-up mechanisms from all delayed participating organizations for project closure as noted in the prior year. As at 10 April, only two main agencies remain with larger balances to clear (UNDP and the Office for the Coordination of Humanitarian Affairs). The balance has been substantially reduced in prior years. UNDP continues to implement routine follow-up on project closure to reduce the rates. Comments on total organization amounts: Food and Agriculture Organization of the United Nations (FAO), ($70,404.95): FAO is waiting for internal approval to clear. Non-governmental organizations (NGOs)/Office for the Coordination of Humanitarian Affairs, ($1,411,467.98): three projects where refunds have been received and expenses need correcting; the Office is working on a correction. NGO/UNDP, $11,727,822.17, primarily related to the Central African Republic, the Sudan and Darfur. United Nations Capital Development Fund, $3,194.24, one project, refund to be made by the Fund shortly. UNDP, $2,497,043.71, primarily related to Haiti, South Sudan and the Sudan. United Nations Human Settlements Programme (UN-Habitat), $300,726.93, of which the majority relates to one project with a large balance with the Government of Haiti; UN-Habitat delays due to a change in Government. United Nations Children's Fund (UNICEF), ($3,145.82): UNICEF will clear in annual upload (May). WFP, $14,068.77, related mainly to one project: WFP to refund after annual upload. Grand total: $13,057,837.07.	Parts (a) and (b) of the recommendation are under implementation. While the Board notes the efforts exerted on following up with participating organizations for closure of outstanding overdue projects, the Board still noted projects with outstanding balances of pending refunds. Therefore, at present the Board considers that these parts of the recommendation are under implementation. On part (c), following discussion with the Multi-Partner Trust Fund Office, the Board noted efforts by UNDP and the Office to follow up on having common inter-agency policies and, noting that it is not easy for UNDP to influence the implementation of common policies and procedures around inter-agency pooled funding mechanisms to harmonize practices aimed at enhancing accuracy in reporting and timing of issuing reports, the Board withdraws this part of the recommendation.		√		

Number	Audit report year	Paragraph reference	Recommendations of the Board of Auditors	UNDP response	Assessment by the Board	Board's assessment			
						Implemented	Under implementation	Not implemented	Overtaken by events
36	2015	82	UNDP also agreed with the Board recommendation that the resident coordinator ensure that: (a) the Uganda country office liaise with other United Nations entities and initiate the process of conducting macroassessments at least once during the country office programme cycle; and (b) the Uganda and Sierra Leone country offices incorporate the macroassessment, where available, in the United Nations Development Assistance Framework reviews.	On (a), macroassessments were carried out for the Uganda and Sierra Leone country offices. On (b), the current United Nations Development Assistance Framework reports have incorporated elements of the macroassessments.	(a) The Board reviewed the macroassessment report of June 2016 for Sierra Leone and the report of April 2015 for Uganda. (b) The Board noted for Uganda and Sierra Leone that the United Nations Development Assistance Frameworks have incorporated elements of microassessments.	√			
37	2015	91	UNDP agreed with the Board recommendation that it (a) strengthen controls in reviewing the harmonized approach to cash transfers microassessment plan for completeness and accuracy; (b) prioritize the microassessment activities relating to implementing partners, based on an assessment plan; and (c) monitor implementation and conduct an annual update of the assessment plan.	On (a), the regional bureaux reviewed the harmonized approach to microassessment plans, sample review messages were sent to a country office and training was rolled out as agreed. On (b) and (c), prioritization and monitoring is carried out by the regional bureaux through the harmonized approach to cash transfers monitoring dashboard. There were revisions made to the microassessment methodology at the inter-agency level.	Despite good progress made by UNDP in this area, deficiencies in macroassessments and microassessments were noted in the audit of 2016 and in 2017. In that regard, the Board considers this recommendation to be under implementation.		√		
38	2015	98	UNDP agreed with the Board's recommendation that it ensure country offices (a) prepare the complete set of harmonized approach to cash transfers assurance activities plan in line with the harmonized approach to cash transfers assurance template and include all the required information; (b) conduct all assurance activities as planned; and (c) monitor and improve annual assurance plans from the lessons learned from harmonized approach to cash transfers	The regional bureaux monitor the preparation and implementation of assurance activity plans and are expected to update the corporate dashboard that was recently launched to monitor implementation partner spot checks. As this process is ongoing and being permanently updated, the dashboard is not complete with respect to its current status.	The Board noted the developed dashboards that monitor implementation of microassessments in country offices to address audit recommendations (a), (b) and (c). However, in the audit of 2016 the Board noted deficiencies in the preparation of the harmonized approach to cash transfers assurance plans and in conducting assurance activities in three out of the six visited		√		

Number	Audit report year	Paragraph reference	Recommendations of the Board of Auditors	UNDP response	Assessment by the Board	Board's assessment: Implemented	Board's assessment: Under implementation	Board's assessment: Not implemented	Board's assessment: Overtaken by events
			transitional assurance activities plans of 30 April 2015.		country offices. Therefore, the Board considers this recommendation as being under implementation.				
39	2015	133	UNDP agreed with the Board's recommendation that it (a) perform regular vendor data checks to maintain accurate and up-to-date data, including removing duplicate active vendors; (b) ensure regular review and correction of vendors' bank information to prevent duplicates; and (c) review transactions processed in bank accounts shared by multiple vendors to correct inappropriate transactions.	(a) Regular data clean-ups in 2017 as part of the ongoing supplier of interest project have reduced the number of payees in the enterprise resource planning system by 50 per cent. The project was launched in October 2016 to enhance vendor management. Archiving of inactive vendors has been improved, the period has been reduced to two years from three years and the process is automated through a batch process which is run on a quarterly basis and archives vendors that have been inactive for two years. (b) and (c) The vendor management workbench launched in December 2017 enables country offices to identify and rectify missing information and/or errors in vendor records. The system introduces mandatory fields such as addresses and telephone numbers. With the new system, all vendors with errors or missing information will have to be updated before the vendor record can be utilized. The mandatory fields will be activated in the enterprise resource planning system on 2 February 2018. In November 2017, the Office of Audit and Investigations performed testing of duplicate vendors and shared vendor bank accounts for a sample of five countries. The results were compared to those of the 2016 audit, and improvements were noted.	The Board verified the measures explained by management and confirmed that the recommendation has been implemented.	√			

Number	Audit report year	Paragraph reference	Recommendations of the Board of Auditors	UNDP response	Assessment by the Board	Board's assessment			
						Implemented	Under implementation	Not implemented	Overtaken by events
40	2015	138	UNDP agreed with the Board's recommendation that it: (a) provide regular updates on the non-Atlas procurement indicators for more accuracy, completeness and reliability of information; (b) ensure requesters at country offices input reasonable delivery due dates in the e-requisition, in such a way as to reduce the workload for data clean-up of delivery dates for purchase orders indicated in red in the IPSAS dashboard; and (c) enhance follow-up with vendors such that goods or services are delivered within the scheduled period.	The Procurement Services Unit has removed some of the indicators that provide inaccurate information. As an alternative, the relaunched financial performance dashboard now includes indicators that are related to purchase orders; receipt and payment activities; past due milestones; delayed Atlas receipts; approved purchase orders not dispatched; purchase orders with no Atlas receipts; and monitoring of purchase orders without a receipt. (A link to the financial performance dashboard, which requires users to log in, was provided to the Board.) A procedure is now in place to update the certification indicator in the procurement dashboard. The data is provided by the Learning Management System and the Chartered Institute of Purchasing and Supply on a regular basis and the Office of Information Management and Technology updates the indicator in the procurement dashboard. (b) and (c) Country offices have been reminded to indicate reasonable delivery dates at the requisition stage.	The Board reviewed the relaunched financial performance dashboard, which includes indicators relating to procurement activities like purchase orders, receipt and payment activities, past payment activities and past due milestones and noted significant improvement in comparison with the previous version regarding the non-Atlas procurement indicators. However, the Board continued to note weaknesses in consistency of information on staff procurement certifications in 2017. Therefore, the recommendation is under implementation. Parts (b) and (c) of the recommendation have been implemented as indicated by a significant decline in purchase orders with delivery delays.		√		
41	2015	173	UNDP agreed with the Board's recommendation that it: (a) implement a backup plan for Internet access for its three offices using the services of the data centre; (b) clear unused items from the data centre, label and keep cables in order; (c) use a dry pipe fire suppression system in the data centre; and (d) review physical access rights to the data centre every quarter and report thereon to the Information Security Section management meetings.	All parts of the recommendation have been implemented.	The Board confirmed that the recommendation has been implemented.	√			

Number	Audit report year	Paragraph reference	Recommendations of the Board of Auditors	UNDP response	Assessment by the Board	Board's assessment			
						Implemented	Under implementation	Not implemented	Overtaken by events
42	2015	177	UNDP agreed with the Board's recommendation that it: (a) analyse all assets disposed in error and consider the impact on the financial statements of the year prior; (b) ensure operating units regularly perform reviews to identify errors and send requests to the Global Shared Service Centre in a timely manner for reversing the capitalization made in Atlas; (c) ensure approving managers verify that all items are appropriately selected in the procurement catalogue; and (d) consider improving assets data in Atlas such that actual assets retired in error could be easily differentiated from assets under construction converted into leasehold improvements.	UNDP is pleased to inform that the Board recommendation in paragraph 177 has been implemented. All operating units have been informed of the need to regularly review their asset information and submit global shared services unit requests for corrections in a timely manner. The units were also reminded that approving managers should verify the use of the appropriate catalogue for procurement of UNDP assets. A new disposal transaction code "COMAUC" has been introduced to distinguish re-categorization of assets under construction from the genuine retirements made in error.	The Board verified the measures taken by management and confirmed that the recommendation has been implemented.	√			
Total						**25**	**17**		
Percentage						**60**	**40**		

Annex II

Disclosure by management of cases of fraud and presumptive fraud

(a) Cases received and resolved in 2017[1]

Number	*Region*	*Date reported or detected*	*Nature*	*Description of the issue*	*Remedial action against the persons involved*	*Loss (United States dollars) to UNDP*[2]	*Amount recovered (United States dollars)*	*Management action to deter recurrence*
1	Africa	30 January 2017	Misrepresentation, forgery and false certification	Staff member allegedly instructed another staff member to prepare fabricated documents to facilitate direct procurement of a vendor by UNDP.	Investigation report sent to the Legal Office	Amount unknown	–	UNDP has established policies on conflict of interest, declarations of impartiality and ethics to deter similar occurrences.
2	Latin America and the Caribbean	16 May 2017	Procurement fraud	Service contractor was allegedly the owner of the winning company in a procurement exercise for which he drafted the terms of reference and participated in the evaluation panel. The service contractor also allegedly removed the company's documents containing his name from the procurement file.	Investigation report submitted to the country office and subject's contract was terminated	–	–	UNDP has established policies on conflict of interest, declarations of impartiality and a vendors sanction committee to deter similar occurrences. In addition, established dashboards will allow country offices to highlight potential anomalies such as staff also being registered as suppliers.
3	Africa	13 June 2017	Procurement fraud	Vendor's owner allegedly had prior connections to staff member conducting procurement processes for the organization and co-owned another vendor with the staff member's wife.	Investigation report submitted to the Vendor Review Committee	Amount unknown	–	UNDP has established policies on conflict of interest, declarations of impartiality and a vendors sanction committee to deter such occurrences.

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[1] The Office of Audit and Investigations substantiated a total of $569,358 in financial losses in investigation reports that were issued in 2017; however, the majority of this loss has not been included here because it involves cases that were not reported to the Office in 2017.

[2] Only losses to the United Nations Development Programme (UNDP) have been included in this list. Losses to other United Nations agencies in cases concerning staff members and non-staff personnel from other agencies administered by UNDP, as well as losses to other entities such as CIGNA, are not considered financial losses to UNDP.

Number	*Region*	*Date reported or detected*	*Nature*	*Description of the issue*	*Remedial action against the persons involved*	*Loss (United States dollars) to UNDP*[a]	*Amount recovered (United States dollars)*	*Management action to deter recurrence*
4	Africa	19 July 2017	Entitlements fraud	Staff member allegedly received payment for completing an MSc in procurement after submitting a dissertation that was not the product of his own work.	Investigation report sent to the Legal Office	1 096	–	For the time being, UNDP does not approve any new requests for studies based on the Educational Assistance Programme. If such a programme is reopened, UNDP will consider additional measures to prevent reoccurrence.
	Subtotal					**1 096**	–	

(b) Cases received in 2017 and still pending

Number	*Region*	*Date reported or detected*	*Nature*	*Amount involved*[2] *(United States dollars)*	*Description of the issue*
1	Africa	25 October 2016	Other failure to comply with obligations	Unknown	A vendor allegedly colluded with staff members by engaging in an anticompetitive scheme during a procurement process and failed to disclose a relationship with one of the staff members
2	Africa	1 December 2016 and 16 December 2016	Theft and embezzlement	18 000	Allegations involving the theft and fraudulent use of a fuel card
3	Europe and Commonwealth of Independent States (CIS)	8 February 2017	Entitlements fraud	7 964	Staff member allegedly submitted fraudulent claims for reimbursement of medical expenses
4	Asia and the Pacific	27 February 2017	Misrepresentation, forgery and/or false certification	Unknown	A non-governmental organization (NGO) allegedly engaged in a series of misrepresentations and corrupt practices
5	Asia and the Pacific	5 March 2017	Procurement fraud	Unknown	Allegations of procurement fraud by a service contractor
6	Africa	8 March 2017	Misrepresentation, forgery and/or false certification	Amount currently being assessed	An implementing partner allegedly submitted a series of fraudulent documents justifying expense claims
7	Africa	14 April 2017	Misrepresentation, forgery and false certification	21 325	An implementing partner allegedly misrepresented its expenses when reporting its activities
8	Africa	14 April 2017	Misrepresentation, forgery and false certification	31 520	An implementing partner allegedly misrepresented its expenses when reporting its activities
9	Africa	20 April 2017	Theft and embezzlement	Unknown	An NGO allegedly conducted a series of fraudulent financial transactions involving UNDP funds
10	Africa	11 May 2017	Procurement fraud	Unknown	Two service contractors allegedly received bribes from an organization during a project
11	Asia and the Pacific	11 May 2017	Procurement fraud	Unknown	Allegations that a confidential procurement document was shared during the procurement process with the implementing partner who was awarded the contract
12	Arab States	25 May 2017	Other failure to comply with obligations	Unknown	A service contractor allegedly extorted funds from a vendor that submitted fake documents as part of a bid during a UNDP tendering process
13	Asia and the Pacific	1 June 2017	Misrepresentation, forgery and false certification	Approximately 600	A staff member allegedly falsified authorizing signatures on an overtime claim

Number	*Region*	*Date reported or detected*	*Nature*	*Amount involved*[c] *(United States dollars)*	*Description of the issue*
14	Europe and CIS	7 June 2017	Procurement fraud	Unknown	Allegations of procurement fraud during a UNDP procurement process
15	Europe and CIS	13 June 2017	Theft and embezzlement	414 330	Unknown third party allegedly misappropriated funds allocated to a Global Fund to Fight AIDS, Tuberculosis and Malaria project by assuming the identity of the lawful vendor and directing payment to its bank account
16	Africa	23 June 2017	Procurement fraud	Unknown	A service contractor allegedly colluded with a vendor to fabricate false documents attesting that the vendor provided more than what was needed for a project and in exchange he asked for a part of the benefits
17	Arab states	27 June 2017	Procurement fraud	Unknown	A UNDP vendor allegedly colluded with a service contractor to commit procurement fraud in one or more UNDP tenders
18	Arab states	27 June 2017	Procurement fraud	Unknown	A UNDP vendor allegedly colluded with two service contractors, through kickbacks or gifts, to commit procurement fraud in one or more UNDP tenders
19	Arab states	27 June 2017	Procurement fraud	Unknown	A UNDP vendor allegedly colluded with two other prospective vendors to commit procurement fraud in a UNDP tender
20	Arab states	27 June 2017	Procurement fraud	Unknown	A vendor allegedly colluded with a service contractor providing one or more kickbacks, in one or more UNDP tenders
21	Arab states	27 June 2017	Procurement fraud	Unknown	A vendor allegedly colluded with one or more other vendors in a UNDP tender
22	Arab states	27 June 2017	Procurement fraud	Unknown	A vendor allegedly colluded with another vendor to commit procurement fraud in a UNDP tender
23	Arab states	27 June 2017	Procurement fraud	Unknown	A service contractor allegedly colluded with two vendors and one other service contractor to commit procurement fraud in UNDP tenders
24	Arab states	27 June 2017	Procurement fraud	Unknown	A service contractor allegedly colluded with a vendor to commit procurement fraud in one or more UNDP tenders
25	Arab states	27 June 2017	Procurement fraud	Unknown	A service contractor allegedly colluded with two vendors and another service contractor to commit procurement fraud in UNDP tenders
26	Asia and the Pacific	21 July 2017	Procurement fraud	Unknown	A staff member allegedly colluded with a vendor to provide services without prior approval thereby allowing it to inflate its prices and provide unnecessary replacement of certain parts
27	Africa	24 July 2017	Misrepresentation, forgery and false certification	Unknown	Allegations of irregularities in expenditures, such as misrepresentations, document forgery and/or falsifications, related to activities conducted by an implementing partner leading to financial losses
28	Africa	24 July 2017	Misrepresentation, forgery and false certification	Unknown	Allegations of irregularities in expenditures, such as misrepresentations, document forgery and/or falsifications, related to activities conducted by an implementing partner leading to financial losses
29	Africa	24 July 2017	Misrepresentation, forgery and false certification	Unknown	Allegations of irregularities in expenditures, such as misrepresentations, document forgery and/or falsifications, related to activities conducted by an implementing partner

Number	Region	Date reported or detected	Nature	Amount involved[c] (United States dollars)	Description of the issue
30	Africa	24 July 2017	Misrepresentation, forgery and false certification	Unknown	Allegations of irregularities in expenditures, such as misrepresentations, document forgery and/or falsifications, related to activities conducted by an implementing partner
31	Arab states	28 July 2017	Procurement fraud	Unknown	Allegations of a series of fraudulent and corrupt practices during the implementation of a project
32	Africa	8 August 2017	Procurement fraud	Unknown	A vendor allegedly colluded with a service contractor to fabricate false documents attesting that the vendor provided more products than were needed for a project
33	Africa	8 August 2017	Misrepresentation, forgery and false certification	Approximately 32 700	A vendor allegedly submitted fraudulent supporting documentation for reimbursement of expenses
34	Europe and CIS	11 August 2017	Other failure to comply with obligations	Unknown	A responsible party allegedly provided UNDP false information by misrepresenting its experience during a procurement process, which led to the establishment of a contractual relationship between it and UNDP
35	Arab states	18 August 2017	Misrepresentation, forgery and false certification	Unknown	A vendor allegedly paid its workers less than what was contractually agreed, required some of them to return their salaries and used a ghost employee scheme claiming that it had a higher number of workers than it actually had
36	Africa	28 August 2017	Misrepresentation, forgery and false certification	Unknown	A project assistant is alleged to have altered emails and submitted false documentation to obtain approval for the disbursement of funds that were not legitimate expenses
37	Africa	6 September 2017	Other failure to comply with obligations	Unknown	Allegations of conflict of interest and entitlements fraud concerning a former staff member and a vendor
38	Europe and CIS	27 September 2017	Procurement fraud	Unknown	Allegations that vendors are being favoured during procurement processes and that UNDP personnel are receiving bribes
39	Africa	27 September 2017	Other failure to comply with obligations	150 000	Allegations that health products procured by UNDP under a Global Fund grant for an anti-malaria project were being resold on the black market
40	Latin America and the Caribbean	3 October 2017	Entitlements fraud	Unknown	A staff member allegedly misused the organization's funds to pay for personal expenses
41	Africa	18 October 2017	Procurement fraud	Unknown	A vendor allegedly engaged in procurement fraud by colluding with a staff member, who failed to disclose a conflict of interest
42	Africa	24 October 2017	Procurement fraud	Unknown	UNDP personnel allegedly colluded to manipulate a procurement process
43	Africa	24 October 2017	Procurement fraud	Unknown	UNDP personnel allegedly colluded to manipulate a procurement process
44	Arab states	26 October 2017	Misrepresentation, forgery and false certification	Unknown	A vendor was allegedly requested to misrepresent its list of beneficiaries to UNDP as part of a cash for work project

Number	*Region*	*Date reported or detected*	*Nature*	*Amount involved[a] (United States dollars)*	*Description of the issue*
45	Arab states	30 October 2017	Misrepresentation, forgery and false certification	Unknown	A staff member allegedly provided a false medical certificate
46	Arab states	30 October 2017	Misrepresentation, forgery and false certification	Unknown	A service contractor allegedly provided a false medical certificate
47	Arab states	2 November 2017	Misrepresentation, forgery and false certification	Unknown	A vendor allegedly misrepresented the number and amount of payments made to beneficiaries as part of a cash for work project
48	Arab states	8 November 2017	Entitlements fraud	42	A staff member allegedly submitted fraudulent claims for reimbursement of medical expenses
49	Africa	17 November 2017	Entitlements fraud	2 494	A staff member allegedly submitted fraudulent claims for reimbursement of medical expenses
50	Arab states	17 November 2017	Procurement fraud	Unknown	A vendor allegedly colluded with a UNDP staff member, receiving inside information, to commit procurement fraud in respect of one or more tenders
51	Arab states	22 November 2017	Procurement fraud	Unknown	A vendor allegedly colluded with a service contractor during a procurement process, where the vendor was awarded the contract
52	Europe and CIS	27 November 2017	Procurement fraud	Unknown	Allegations of procurement fraud and solicitation of bribes by UNDP personnel
53	Africa	28 November 2017	Misuse of resources	Unknown	Allegations of fraud in training funded by the Global Fund
54	Arab states	28 November 2017	Other failure to comply with obligations	Unknown	Allegations that a staff member may have colluded with a third party to commit procurement fraud in respect of one or more UNDP tenders
55	Arab states	1 December 2017	Entitlements fraud	4 631	A staff member allegedly submitted fraudulent claims for reimbursement of medical expenses
56	Arab states	6 December 2017	Procurement fraud	Unknown	Allegations of procurement fraud involving a vendor and UNDP personnel
57	Africa	14 December 2017	Entitlements fraud	5 519	A staff member allegedly submitted fraudulent claims for reimbursement of medical expenses
58	Africa	14 December 2017	Entitlements fraud	914	A staff member allegedly submitted fraudulent claims for reimbursement of medical expenses
59	Europe and CIS	14 December 2017	Entitlements fraud	2 213	A staff member allegedly submitted fraudulent claims for reimbursement of medical expenses
60	Latin America and the Caribbean	21 December 2017	Other failure to comply with obligations	Unknown	A staff member allegedly requested payment for a medical expense for a person unrelated to the organization
	Subtotal		**60**	**692 252**	
	Total		**64**	**693 348**	

Chapter III

Financial report for the year ended 31 December 2017

A. Introduction

1. The financial report should be read in conjunction with the United Nations Development Programme (UNDP) audited financial statements and the accompanying notes for the year ended 31 December 2017. All amounts are expressed in United States dollars, which is the functional currency of the Programme. The financial statements are prepared for the calendar year 2017 in accordance with International Public Sector Accounting Standards (IPSAS). The financial report provides readers of the financial statements a better understanding of the numbers.

2. The financial statements aggregate all of the operations and transactions of UNDP at the organizational level. While this aggregate view of the organization is useful for overall performance and position analysis, readers are reminded to consider the segment reporting: statements of financial position and performance (note 6) and programme expenses by geographical region (note 36.3), which segregate transactions and account balances by operating segments based on management reporting and by geographical region, respectively.

Who we are

3. UNDP was established by the General Assembly in 1965 through its resolution 2029 (XX). UNDP is politically neutral and its cooperation is impartial. UNDP works, primarily through its global network of offices and partners, with entities and people at all levels of society to help build nations that can withstand crisis and drive and sustain growth that improves the quality of life for everyone.

What UNDP offers

4. UNDP helps to achieve the eradication of poverty and the reduction of inequalities and exclusion and assists countries in developing policies, leadership skills, partnering abilities and institutional capabilities and in building resilience in order to sustain development results.

5. In 2017, the Programme's areas of work, as guided by the UNDP strategic plan 2014–2017, focused on helping countries build and share solutions in three main areas:

- How to adopt sustainable development pathways
- How to build and/or strengthen inclusive and effective democratic governance
- How to build resilience.

6. In addition, UNDP administers:

- United Nations Volunteers programme: the United Nations Volunteers programme is an organization that promotes volunteerism to support peace and development worldwide. The operations of United Nations Volunteers are reflected in the financial statements of UNDP. During 2017, 6,501 United Nations Volunteers from 159 countries supported partner United Nations entities in their peace and development activities in the field through 6,649 assignments.
- Junior Professional Officers programme: UNDP administers the Junior Professional Officers programme on behalf of 11 United Nations entities, as well as the following programmes: the special assistant to the resident

coordinator programme, the specialist development programme and the Swedish secondment programme.

- Multi-Partner Trust Fund Office: UNDP houses the Multi-Partner Trust Fund Office, a United Nations centre of expertise on pooled financing mechanisms. It supports development effectiveness and United Nations coordination through the efficient, accountable and transparent design and administration of innovative pooled financing mechanisms.
- United Nations Office for South-South Cooperation: UNDP houses the United Nations Office for South-South Cooperation, established pursuant to General Assembly resolution 3251 (XXIX), in which the Assembly endorsed "the establishment of a special unit within the United Nations Development Programme to promote technical co-operation among developing countries". The mandate of the special unit is to promote, coordinate and support South-South and triangular cooperation globally and within the United Nations system.

7. The UNDP Administrator is responsible for the administration of the United Nations Capital Development Fund, which provides seed capital and technical assistance to promote sustainable inclusive growth in the least developed countries. The Fund prepares its financial statements separately from UNDP.

Financial objectives

8. The financial objective of UNDP is to ensure that all the resources, including financial resources, entrusted to the organization are managed efficiently and effectively in order to achieve the expected development results. Within this objective lie key criteria and benchmarks, including:

(a) Accurate and timely reporting of results to the Executive Board and UNDP partners and other governing bodies;

(b) Establishing and maintaining a sound set of internal financial control mechanisms;

(c) Meeting the minimum regular resources liquidity requirement range approved by the Executive Board (i.e., three to six months of expenses);

(d) Producing annual IPSAS-compliant financial statements.

9. The financial reporting objective of UNDP is to provide users of the financial statements with transparent, comprehensive and understandable financial information for decision-making and to increase the use and consumption of financial information.

B. Summary of financial results and highlights

10. In 2017, for a second consecutive year, UNDP maintained total annual revenues of more than $5 billion and managed total assets of more than $7 billion. UNDP received total contributions of $4.892 billion, comprised of $647.298 million in regular resources and $4.245 billion in other resources.

Highlights from fiscal year 2017 compared with 2016 include:

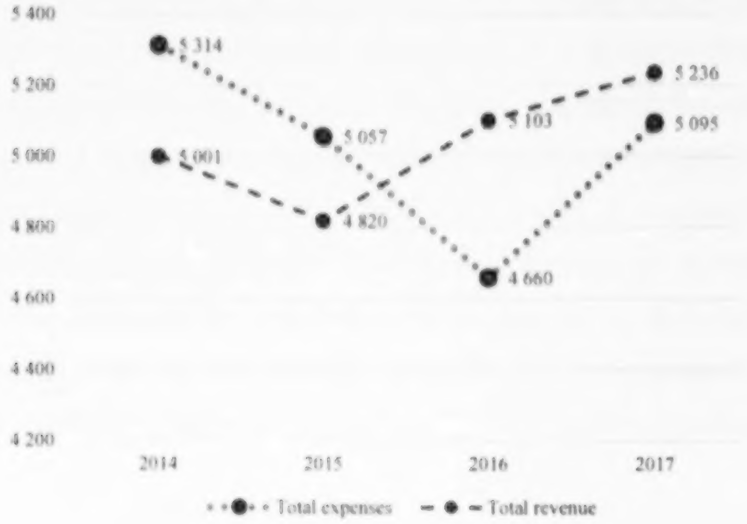
- Increase in total revenue by $133.851 million (or 3 per cent)
- Increase in programme expenses by $510.291 million (or 13 per cent)
- Increase in total assets by $336.825 million (or 5 per cent)
- Decrease in staff costs by $9.381 million (or 1 per cent)

- Increase in contractual services by $193.317 million (or 11 per cent), taking into account that 96 per cent of contractual services are programme-related
- Increase in total investments by $167.374 million (or 3 per cent)
- Increase in the after-service health insurance liability by $281.546 million (or 27 per cent)

Figure III.I

Total revenue and expenses in 2014–2017

(Millions of United States dollars)



C. Financial performance[10]

Revenue analysis

11. The activities of UNDP are funded mainly by voluntary contributions to regular (core) resources and other (non-core) resources.

12. The total revenue in 2017 was $5.236 billion, an increase of $133.851 million, or 3 per cent, from the total revenue of $5.103 billion in 2016.

13. The main sources of revenue of UNDP in 2017 were as follows:

- $4.892 billion, or 93 per cent, from voluntary contributions ($4.785 billion, or 94 per cent, in 2016)
- $344.325 million, or 7 per cent, from exchange, investment and other revenue ($317.452 million, or 6 per cent, in 2016).

Revenue by segment

14. Over the past ten years, the proportion of the Programme's non-core contributions to core contributions has gradually increased. In 2017, UNDP received

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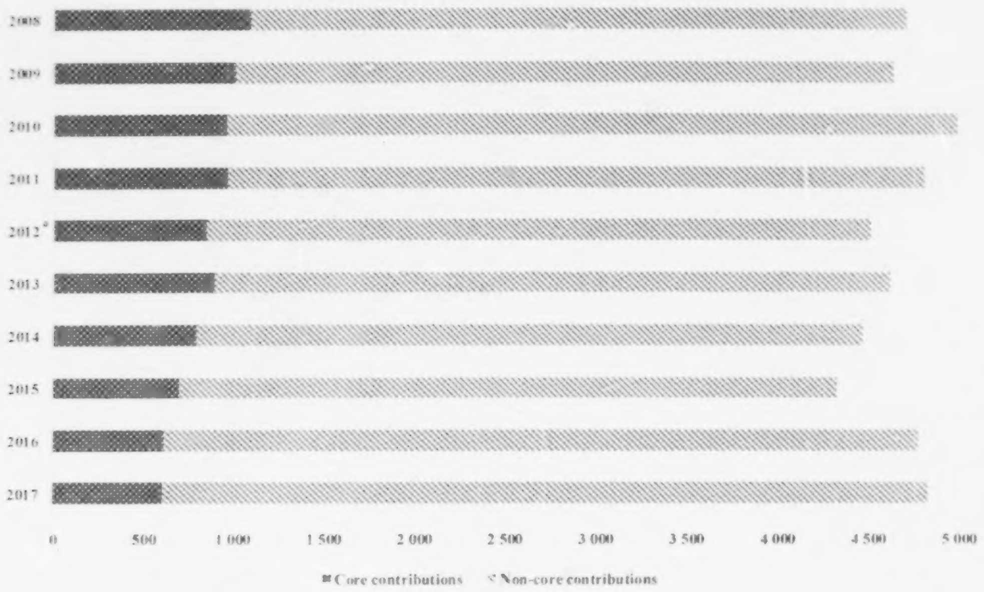
[10] References to "core" signify the "regular resources" segment, while references to "non-core" signify "cost-sharing", "trust funds", and "reimbursable support services" segments in aggregate.

regular resources contributions of $647.298 million (representing 13 per cent of the total contributions) and other resources contributions of $4.245 billion (representing 87 per cent of the total contributions). The 2017 proportion is consistent with that reported in 2016.

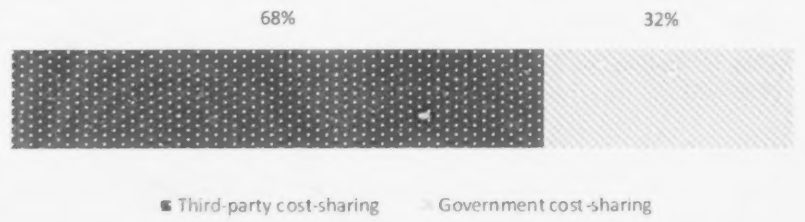
Figure III.II
Trend of core and non-core contributions, 2008–2017
(Millions of United States dollars)



[a] On 1 January 2012, UNDP adopted IPSAS reporting standards. Prior to 1 January 2012, UNDP prepared its financial statements in accordance with the United Nations system accounting standards, which prescribed the use of a modified accrual basis of accounting.

15. Within cost-sharing revenue totalling $3.315 billion, third-party cost-sharing provided 68 per cent of the revenue, government cost-sharing provided 32 per cent of the revenue and South-South cooperation provided less than 1 per cent.

Figure III.III
Total cost-sharing revenue by type



16. Both the core and non-core funding bases are concentrated in a few funding partners (i.e., donors). In 2017, 89 per cent of core revenue was received from 15 partners, which is consistent with the prior year (2016: 88 per cent) (see figure III.IV). For non-core revenue, the concentration of contributions from the largest 15 partners improved and decreased from 61 per cent in 2016 to 52 per cent in 2017 (Figure III.V).

Figure III.IV
UNDP core revenue concentration, 2016–2017 (percentage)

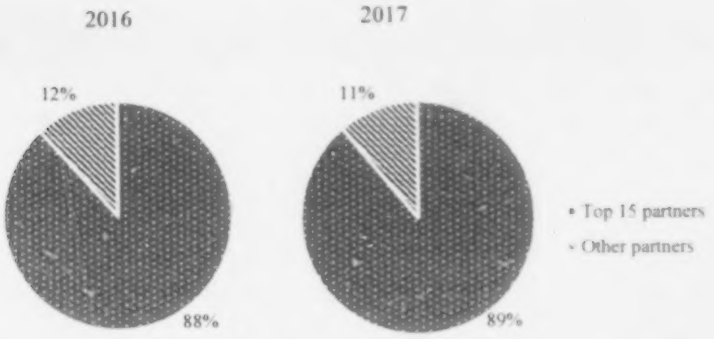
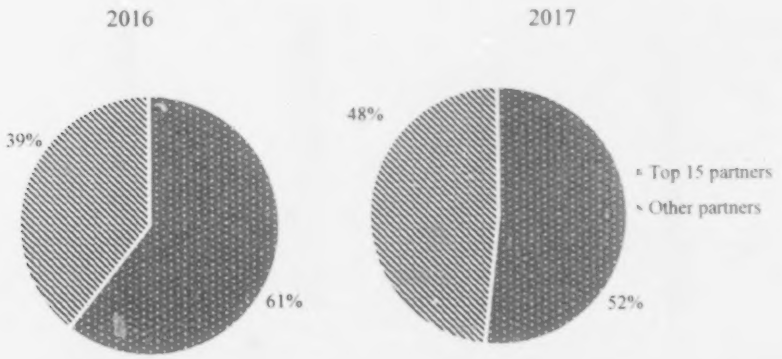


Figure III.V
UNDP non-core revenue concentration, 2016–2017 (percentage)



17. An analysis of revenue by segment[11] shows that cost-sharing is the largest source of revenue, providing 61 per cent of the revenue of UNDP in 2017, followed by trust funds (15 per cent), regular resources (13 per cent) and reimbursable support services and miscellaneous activities (11 per cent).

18. Overall, 2017 revenue proportions by segment were relatively consistent with the prior year, with a slight increase in cost-sharing (non-core) (2 per cent) offset by the decrease in trust funds (3 per cent) from 2016.

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[11] Excludes the elimination of internal UNDP cost recovery.

Figure III.VI
Composition of total revenue in 2016–2017 by segment

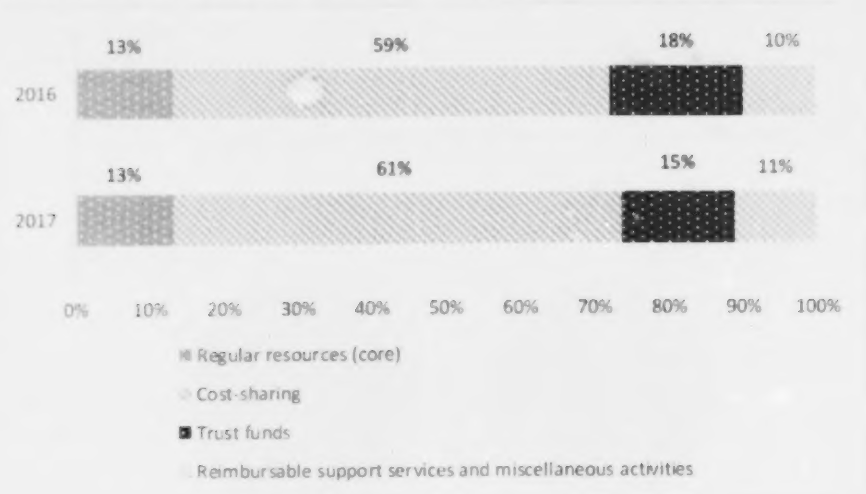
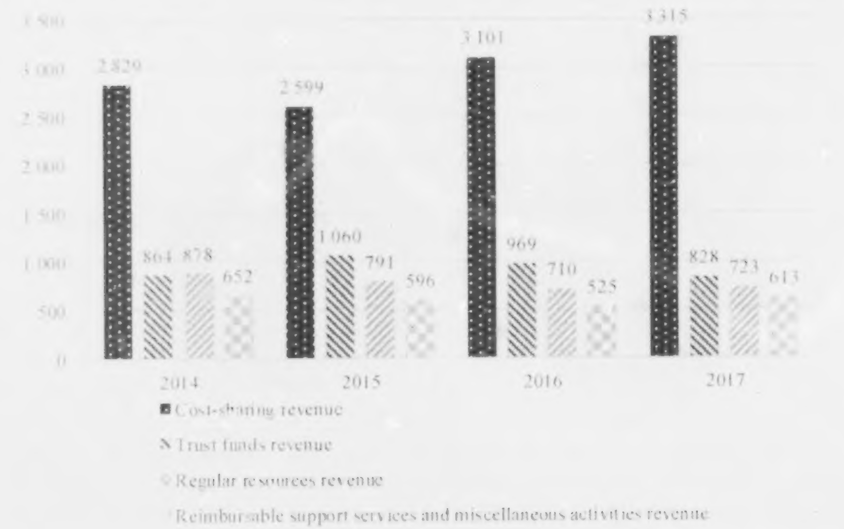


Figure III.VII
Composition of total revenue in 2017 by segment
(Millions of United States dollars)



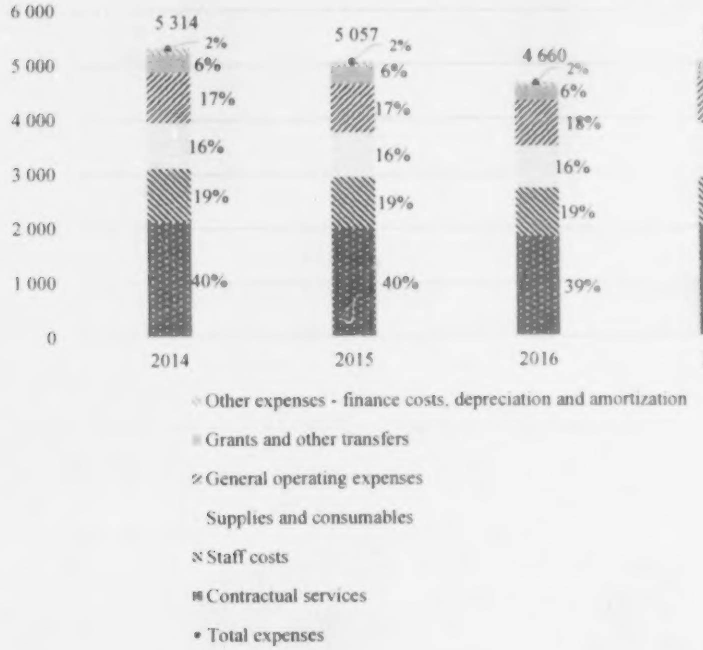
Expense analysis

19. In 2017, UNDP expenses were $5.095 billion ($5.338 billion excluding eliminations of internal UNDP cost recovery), an increase of $435 million, or 9 per cent, from 2016 (2016: $4.660 billion).

20. The largest expense category by nature continues to be contractual services with individuals and companies, which totalled $2.030 billion in 2017 (2016: $1.837 billion), representing 40 per cent of total expenses. The remaining expenses in

2017 by nature are: staff costs totalling $883 million (or 17 per cent of total expenses); supplies and consumables totalling $994 million (or 19 per cent of total expenses); general operating expenses totalling $861 million (or 17 per cent of total expenses); expenses for grants and other transfers totalling $250 million (or 5 per cent of total expenses); and depreciation and other expenses totalling $78 million (or 2 per cent of total expenses).

Figure III.VIII
Composition of total expenses in 2017 by nature
(Millions of United States dollars)



Expenses by cost classification

21. In its decision 2010/32, the UNDP Executive Board endorsed the cost definitions and classification of activities and associated costs in four broad categories, as follows: (a) development activities, which encompass subcategories for programme activities and development effectiveness activities; (b) United Nations development coordination activities; (c) management activities; and (d) special purpose activities, encompassing investments in programmatic and institutional activities relating to United Nations Volunteers and the United Nations Capital Development Fund, as well as capital investments and other related expenditure.

22. In 2017, of total UNDP expenses of $5.338 billion (excluding the effect of the eliminations of internal cost recovery), $4.388 billion (82 per cent) was spent on programme activities, $171 million (3 per cent) was spent on development effectiveness, $130 million (3 per cent) was spent on United Nations development coordination, $358.625 million (7 per cent) was spent on management and $290.28 million (5 per cent) was spent on special purpose and other activities to support operations administered by UNDP. There was a significant increase in resources spent for programme activities and a decrease in management activities.

Figure III.IX (A)

Composition of total expenses in 2016–2017 by cost classification

(Millions of United States dollars)

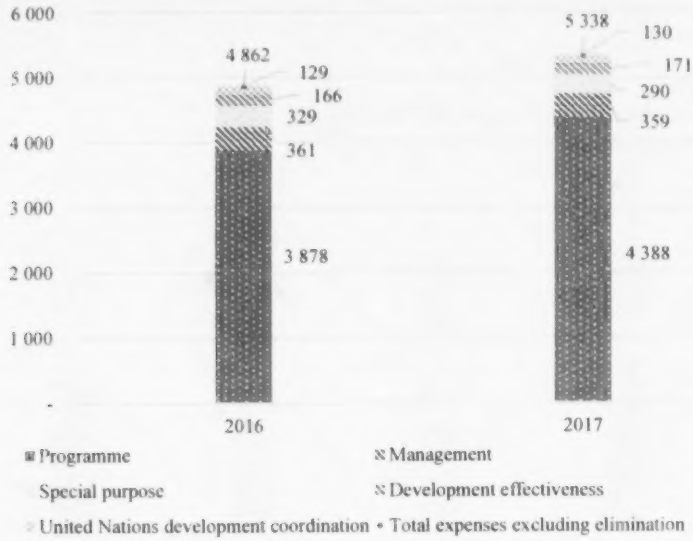
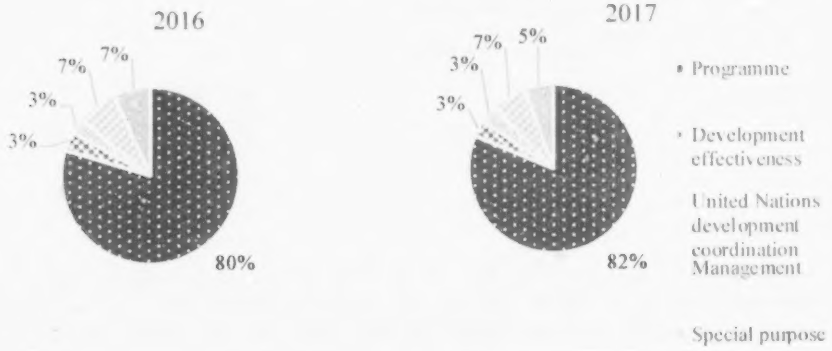


Figure III.IX (B)

Composition of total expenses (percentage) in 2016–2017 by cost classification



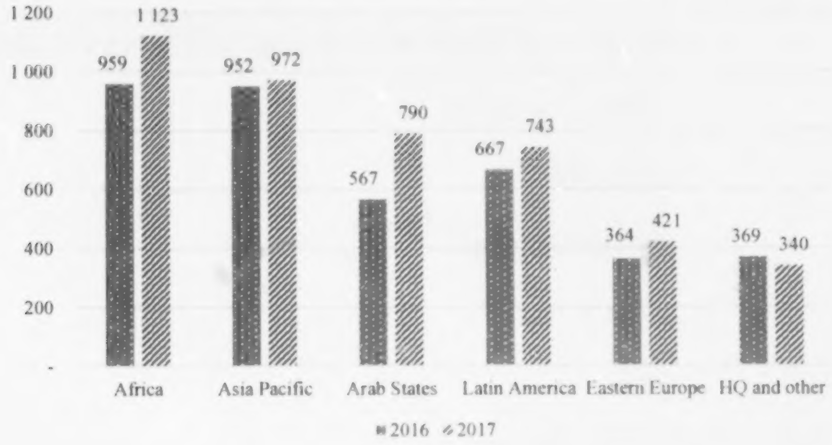
Programme expenses by geographical region

23. In 2017, of total UNDP programme expenses of $4.388 billion (excluding the effect of eliminations), the largest proportion, amounting to $1.123 billion (26 per cent), was spent for activities by the Africa region and the remainder was spent by other regions, as shown in figure III.X.

Figure III.X

Programme expenses in 2016–2017 by geographical region

(Millions of United States dollars)



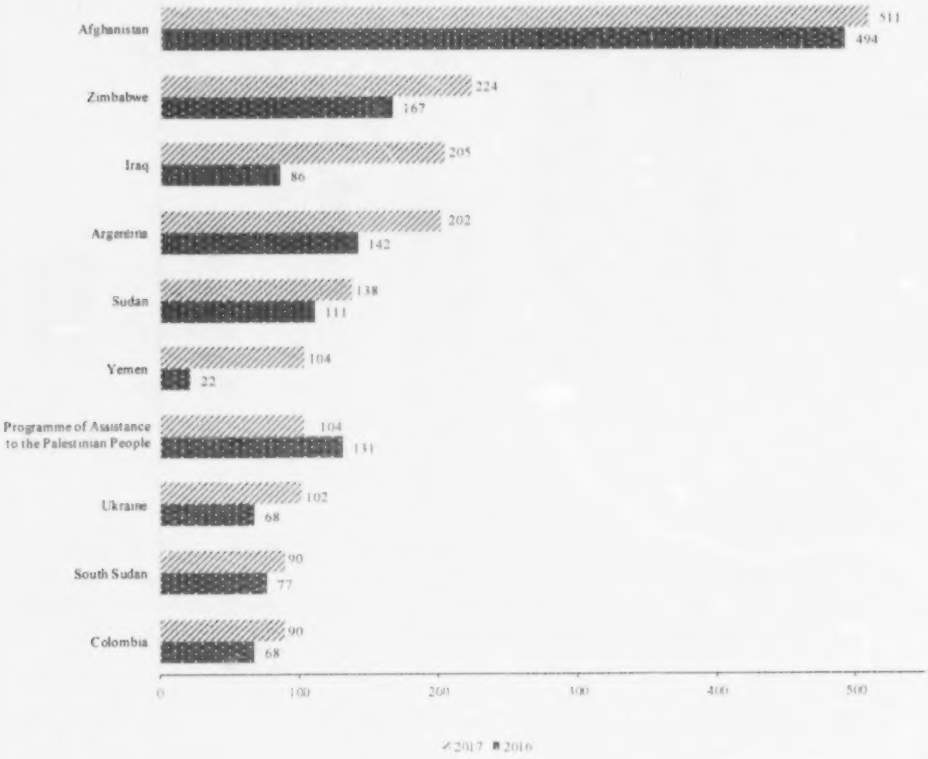
Programme expenses by country office

24. A total of 40 per cent of UNDP programme expenses ($1.770 billion) was attributed to the 10 largest country offices. These comprise the offices in Afghanistan, Zimbabwe, Iraq, Argentina, the Sudan, Yemen, Ukraine, South Sudan and Colombia, as well as the office for the Programme of Assistance to the Palestinian People.

Figure III.XI

Programme expenses in 2016–2017 by the top 10 country offices

(Millions of United States dollars)

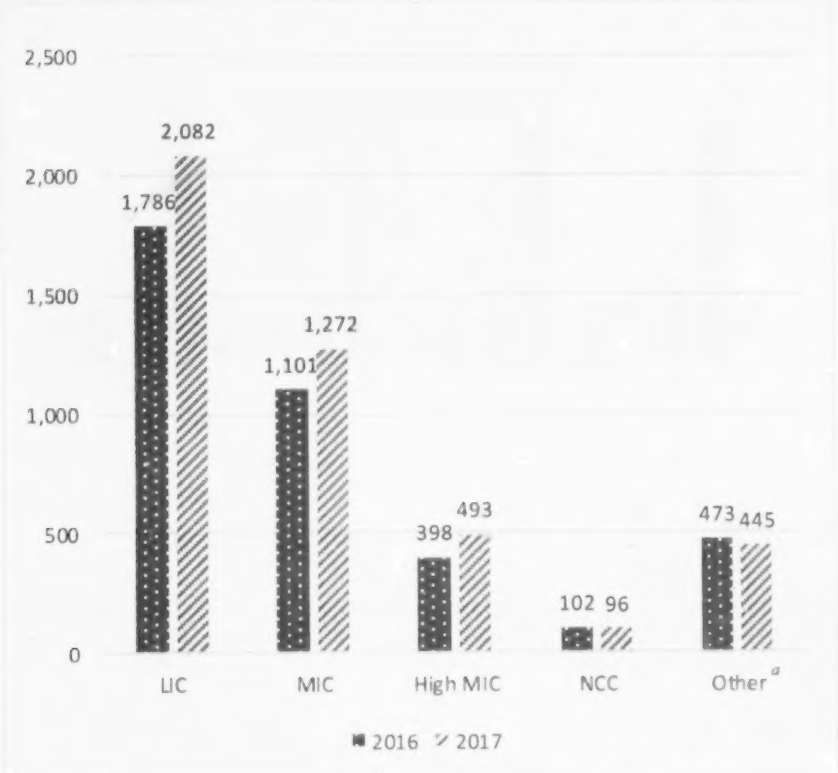


25. The total amount of programme resources spent in low-income countries increased by $296 million, or 17 per cent, from $1.786 billion in 2016 to $2.082 billion in 2017, and programme resources spent in middle-income countries increased by $171 million, or 16 per cent, from $1.101 billion in 2016 to $1.272 billion in 2017.

Figure III.XII

Programme expenses in 2017 by income classification

(Millions of United States dollars)



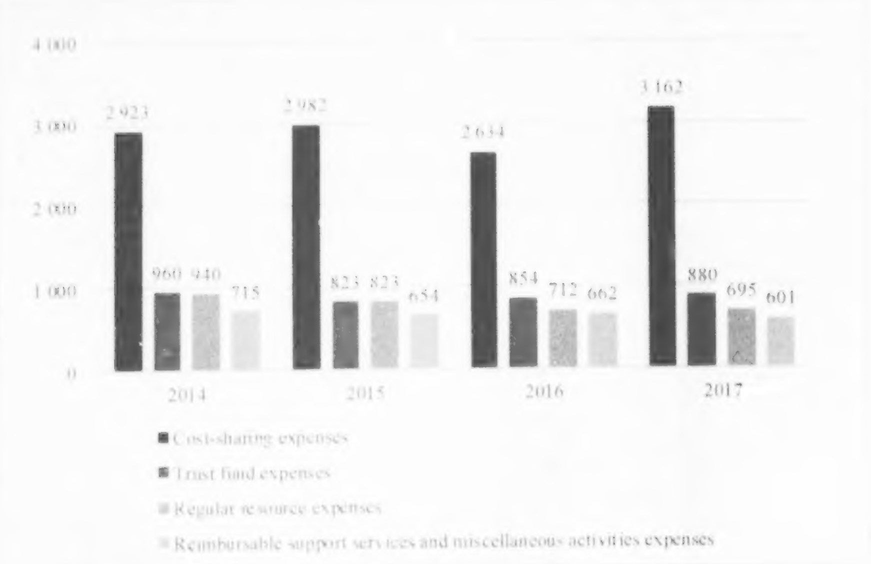
Abbreviations: LIC, low-income country; MIC, middle-income country; High MIC, high middle-income country; NCC, net contributor country.

[a] The "Other" classification group includes offices not classified in LIC, MIC, High MIC or NCC. These include programmes such as the Programme of Assistance to the Palestinian People (2017: $103.692 million) and programmes administered by UNDP regional and central bureaux such as the Bureau for Policy and Programme Support (2017: $173.386 million).

Expenses by segment

26. Of the total expenses for 2017, 59 per cent was funded from cost-sharing, 13 per cent from regular resources, 17 per cent from trust funds and 11 per cent from reimbursable support services and miscellaneous activities.

Figure III.XIII
Total expenses in 2017 by segment
(Millions of United States dollars)



27. Within cost-sharing expenses, totalling $3.162 billion, 70 per cent was spent on third-party cost-sharing, 30 per cent on government cost-sharing and less than 1 per cent on South-South cooperation.

D. Surplus

28. In 2017, UNDP had a surplus of revenue over expenses of $141.649 million compared with a surplus of $443.047 million in 2016. The decrease of $301.398 million reflects primarily:

- An increase in spending of $435.249 million from $4.660 billion in 2016 to $5.094 billion in 2017
- Offset, in part, by an increase in total revenue of $133.851 million (or 3 per cent) from $5.103 billion in 2016 to $5.236 billion in 2017.

29. Included in the 2017 surplus is investment revenue of $88.402 million (2016: $52.925 million). The increase year-over-year was a result of higher United States rates and strong market performance.

E. Budgetary performance

30. The integrated resources plan and the integrated budget set out the estimated financial resources for the strategic plan, covering both regular (core) and other (non-core) resources for 2014–2017. The integrated resources plan includes regular and other resources and encompasses the integrated budget, which covers regular resources only.

31. In its decision 2013/28, the Executive Board approved a four-year integrated budget covering 2014–2017, with estimates provided for the 2014–2015 and 2016-2017 biennium periods.

32. The budget of UNDP is prepared on a modified cash basis and is presented in the financial statements as statement V, comparison of budget and actual amounts (regular resources). In order to facilitate a comparison between the budget and the financial statements prepared under IPSAS, a reconciliation of the budget to the cash flow statement is also included in note 7.

33. While the Programme's approved budgets represent a four-year period, UNDP allocates those budgets into annual amounts in order to provide the budget-to-actual comparison of the annual financial statements as required by IPSAS.

Table III.1
Budget utilization rates for 2017

	Annualized approved final budget (millions of United States dollars)	*Actual utilization rate (percentage)*	*Annualized approved final budget (millions of United States dollars)*	*Actual utilization rate (percentage)*
Budget components	*2017*	***2017***	*2016*	***2016***
Development activities	844.0	**49**	492.1	**90**
United Nations development coordination activities	95.9	**96**	92.7	**100**
Management activities	146.0	**63**	140.3	**55**
Special purpose activities	20.0	**51**	19.1	**48**
Total	**1 105.9**	**55**	**744.2**	**83**

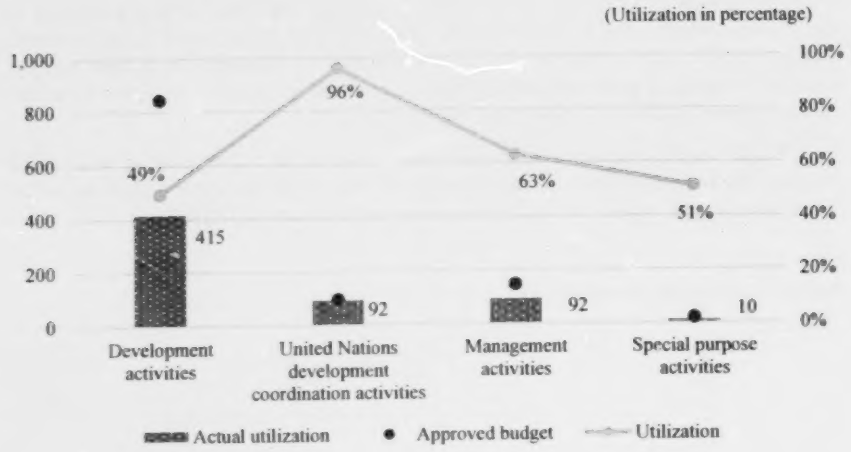
34. Actual utilizations are lower than the annualized budgets for 2017, as UNDP revised the annual spending limits to coincide with resource availability. The Executive Board approved a 2014–2017 integrated budget based on a more optimistic core resources scenario ($3.6 billion) that did not materialize (actual contributions received were $2.7 billion). Therefore, overall, UNDP utilized only 55 per cent (2016: 83 per cent) of its approved budgeted amount.

35. As illustrated in note 7 to the financial statements, budget to actuals comparisons throughout this period reflected sharp variances between actuals and approved budgets. UNDP responded to the challenges of reduced regular resources by making progress towards the objectives of the integrated budget, 2014–2017, underpinned by its three pillars: (a) achieving synergies by integrating the programmatic and institutional budget components; (b) leveraging the new cost classification to further enhance the transparent and efficient usage of resources; and (c) improving cost alignment through implementing different aspects of the cost recovery policy. It also adjusted spending levels downwards as mentioned above, while protecting the majority of country-level programme resources and maintaining its support to the United Nations coordination function. Overall, these actions resulted in lower expenditure compared with the annualized 2017 budgeted amount.

Figure III.XIV

2017 budget versus actual utilization

(Millions of United States dollars)



F. Financial position

Assets

36. At year-end 2017, UNDP held assets of $7.272 billion (2016: $6.935 billion), which were comprised largely of investments and investments — funds held-in-trust of $5.666 billion (2016: $5.466 billion), cash and cash equivalents of $1.046 billion (2016: $917.451 million) and receivables of $214.305 million (2016: $171.128 million). The majority of investments and cash and cash equivalents are earmarked for development activities funded via cost-sharing and trust funds.

37. Overall, assets increased by $336.825 million, or 5 per cent, over the prior year. The change is attributable primarily to an increase in net investments and investments — funds held-in-trust ($199.335 million), cash and cash equivalents ($42.9 million) and cash and cash equivalents — funds held-in-trust ($85.553 million). The increase in investments and cash and cash equivalents is attributable mostly to the current year surplus of $141.649 million and an unrealized gain of $31.181 million on the after-service health insurance investments.

38. The increase in cash and cash equivalents — funds held-in-trust was to ensure prompt distribution of funds in 2018 by the Multi-Partner Trust Fund Office to its partners.

39. The increase in non-current investments in 2017 was attributable to the rebalancing of the investment portfolio in order to take advantage of a rising interest rate environment and reinvesting funds at higher yields.

40. UNDP held more inventory (increase of $6.088 million, or 80 per cent) at the end of 2017 to meet the needs of development projects in the health sector.

Liabilities

41. The total liabilities of UNDP increased by $384.618 million, or 17 per cent, from $2.246 billion in 2016 to $2.631 billion in 2017. The most significant changes in liabilities were due to the increase of $280.338 million, or 21 per cent, in employee

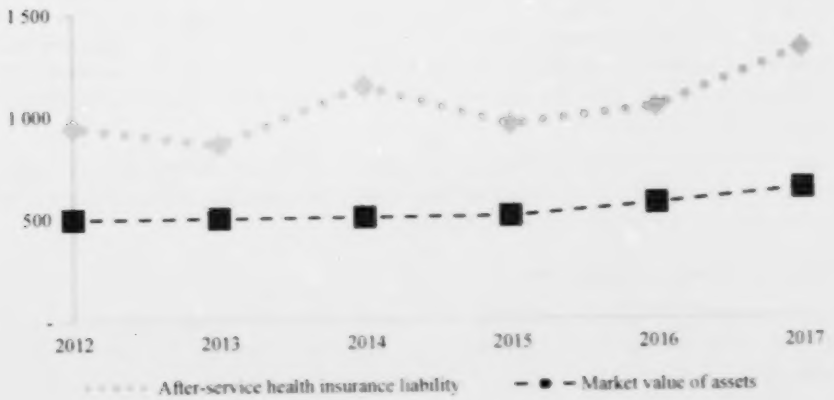
benefit liabilities. This increase is attributable mostly to after-service health insurance. In 2017, UNDP conducted a full actuarial valuation and, as a result, there were significant revised expectations about important factors, namely, an increase in life expectancy for United Nations staff members, which altered the trajectory of the UNDP after-service health insurance plan by significantly increasing the liability. While both 2016 and 2017 actuarial valuations included changes to financial assumptions (e.g., discount rate), 2017 included changes in demographic assumptions (e.g., mortality rates), and the impact of these changes outweighed the impact of the changes in financial assumptions. Note that actuarial gains and losses do not flow through the statement of financial performance although they impact the net asset position of UNDP at year-end. Refer to the statement of changes in net assets for the impact of actuarial gains/(losses).

42. The after-service health insurance benefit is the largest liability held by UNDP and is valued at $1.316 billion (included in the total employee benefits amount) (2016: $1.035 billion), of which $631.3 million (48 per cent) has been invested. UNDP has a funding strategy of 15 years that was formulated to fund the gap between the historical liability and the amount invested. This funding strategy was established to achieve full funding of the liability. Given the significant change in the liability, UNDP will seek an asset-liability study to determine the impact on the funding strategy in 2018.

Figure III.XV[12]

After-service health insurance liability and market values of earmarked assets in investments

(Millions of United States dollars)



43. In 2017, UNDP changed its accounting policy for workers' compensation and now recognizes the expected cost of workers' compensation claims as determined by independent actuaries. As a result, for 2017, a liability of $15.460 million was recognized in the statement of financial position. In accordance with IPSAS, a prior-period adjustment in the amount of $16.457 million was recorded for the 2016

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[12] At the end of 2017, invested assets for the after-service health insurance liability were $631.3 million and additional assets on hand and earmarked for the after-service health insurance liability were $22.8 million. The total after-service health insurance assets were $654.1 million, yielding a funded ratio of the after-service health insurance liability of 50 per cent (2016: 56 per cent). The figure includes only invested assets.

comparative figures. The change in accounting policy is disclosed in note 5 to the financial statements.

Liquidity

44. Despite a decline in regular resources contributions, UNDP achieved the liquidity requirement for regular resources with 5.26 months of average expenditures (2016: 4.6 months) as a result of concerted efforts to reduce certain expenditures in 2017. This result is at the higher end of the range of three to six months that is mandated by the Executive Board.

Net assets/equity

45. Net assets/equity of $4.642 billion reflects amounts received as advance funding from UNDP partners from prior years for activities funded under the integrated resources plan.

46. Net assets/equity includes accumulated surpluses of $4.339 billion and reserves of $302.160 million, of which the operational reserve represents $299.001 million (99 per cent of total reserves).

47. Within the operational reserves, the non-core operational reserves accounted for $139 million and the core management reserves accounted for $160 million.

48. In 2017, a further $22.967 million (2016: $16 million) was released to the accumulated surpluses from the operational reserve, in accordance with the operational reserve formula approved by the Executive Board in decision 1999/9.

49. During 2017, net assets/equity decreased by $47.793 million as a result of the combined effect of the following factors: (a) a surplus of $141.649 million; and (b) actuarial losses of $229.833 million resulting from an increase in the value of the after-service health insurance liability owing to external economic conditions and changes in actuarial assumptions; (c) an increase in the fair value of available-for-sale investments of $31.181 million; and (d) an increase in funds with specific purposes of $9.21 million.

50. Of the total accumulated resource balances of $4.339 billion, $4.013 billion represents accumulated non-core programme resource balances,[13] which increased by 3 per cent from 2016 (2016: $3.912 billion).

Financial position by segment

51. The financial position of UNDP by segment and UNDP in aggregate, as included in note 6 to the financial statements, on segment reporting, is summarized in table III.2.

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[13] "Accumulated non-core programme resources" includes cost-sharing and trust funds segment results.

Table III.2

Summary financial position by segment as [illegible] December 2017

(Millions of United States dollars)

	Regular resources	*Cost-sharing*	*Trust funds*	*Reimbursable support services and miscellaneous activities*	*Total UNDP*
Total assets	2 109.4	3 064.6	1 112.7	985.4	7 272.1
Percentage of total UNDP assets	**29**	**42**	**15**	**14**	**100**
Total liabilities	1 922.9	143.3	17.8	546.5	2 630.5
Percentage of total UNDP liabilities	**73**	**5**	**1**	**21**	**100**
Net assets/equity	186.5	2 921.3	1 094.9	438.9	4 641.6
Percentage of total UNDP net assets/equity	**4**	**63**	**24**	**9**	**100**

Summary financial position by segment as at 31 December 2016

(Millions of United States dollars)

	Regular resources	*Cost-sharing*	*Trust funds*	*Reimbursable support services and miscellaneous activities*	*Total UNDP*
Total assets	1 887.5	2 918.4	1 170.7	958.7	6 935.3
Percentage of total UNDP assets	**27**	**42**	**17**	**14**	**100**
Total liabilities	1 631.9	150.0	24.0	440.0	2 245.9
Percentage of total UNDP liabilities	**73**	**7**	**1**	**19**	**100**
Net assets/equity	255.6	2 768.4	1 146.7	518.7	4 689.4
Percentage of total UNDP net assets/equity	**5**	**59**	**25**	**11**	**100**

Supplementary information

Agency services

52. Leveraging its global network of offices, UNDP supports 118 United Nations agencies by providing services on a cost recovery basis. In 2017, UNDP realized revenue of $54 million from agency services (2016: $60 million). The value of transactions processed on behalf of United Nations agencies was $2.037 billion (2016: $1.9 billion).

G. Accountability, governance and risk management

53. Accountability and governance of UNDP has four main facets:

(a) UNDP governing bodies and governance committees: the General Assembly (including the Fifth Committee), the Economic and Social Council and the Executive Board;

(b) UNDP accountability to its programmatic partners and beneficiaries: funding partners, programme governments, United Nations partners, implementing partners and project beneficiaries;

(c) Institutional oversight mechanisms of UNDP: (i) independent external oversight: the Advisory Committee on Administrative and Budgetary Questions, the United Nations Board of Auditors, the Joint Inspection Unit and the Audit and

Evaluation Advisory Committee; (ii) independent internal oversight: the Office of Audit and Investigations, the Ethics Office and the Independent Evaluation Office;

(d) UNDP internal accountability: the Administrator and Associate Administrator, the Executive Office, the Executive Group (including the Risk Committee), the Organizational Performance Group, regional and headquarters bureaux, regional centres and country offices.

54. Assurance that all the resources, including financial resources, entrusted to UNDP have been managed efficiently and effectively to achieve the expected development results is embedded in the way in which UNDP exercises stewardship over those resources.

55. UNDP has a sound system of internal controls to ensure that effective risk management is integrated into normal business processes and is aligned to the strategic objectives of the organization.

Financial risk management

56. The operations and decentralized business model of UNDP exposes it to a variety of financial risks, including foreign currency exchange rates, interest rates, changes in debt and equity markets and default by debtors in meeting their obligations. The UNDP Financial Regulations and Rules and UNDP policies and procedures encompass strong financial risk management that seeks to minimize the potential adverse effects on the financial performance of UNDP.

57. The financial risk management relating to cash and investments is carried out by a central Treasury Division, which oversees and monitors cash transfers and liquidity in local offices. The Division invests funds received from funding partners pending project implementation based on investment guidelines approved by the Programme's Investment Committee. The Committee, comprising the senior management of UNDP, meets quarterly to review investment performance and confirm compliance with the investment guidelines. The principal objectives of the UNDP investment guidelines are:

(a) Safety, that is, the preservation of capital, provided through investing in high-quality fixed-revenue securities, emphasizing the creditworthiness of the issuers;

(b) Liquidity, that is, the flexibility to meet cash requirements through investments in highly marketable fixed-revenue securities and through structuring maturities to align with liquidity requirements;

(c) Return, that is, the maximization of investment revenue within safety and liquidity parameters.

58. A significant portion of the Programme's investments are managed in-house by the Investment Unit of the Treasury Division under the direct oversight of the Investment Committee. A portion of UNDP investments relating to after-service health insurance are outsourced and managed by external fund managers under established after-service health insurance investment guidelines, which are reviewed and approved on a periodic basis by the after-service health insurance investment committee.

59. UNDP is exposed to currency risk arising from financial assets and liabilities that are denominated in foreign currency. Its programme transactions are denominated primarily in United States dollars and, on an ongoing basis, the Treasury Division evaluates the need to hold cash and other financial assets in foreign currencies. The Treasury Division actively manages the Programme's net foreign currency exposure

in the organization's eight main major currencies against the United States dollar using various financial instruments.

Internal controls

60. The development mandate of UNDP requires it to operate and maintain presence in high-risk environments where there is a high level of inherent risk, including risk to the security of its employees and other assets of the organization. This requires UNDP to maintain the highest standards of internal control.

61. Internal control is a key responsibility of UNDP management and is a process integral to the Programme's management of its operations. It is the responsibility of UNDP management at all levels to:

(a) Establish a strong control environment and culture that promotes effective internal controls;

(b) Identify and assess risks that may affect the achievement of objectives and implement appropriate risk mitigation strategies;

(c) Establish appropriate policies and procedures, systems, monitoring and other control activities that promote and maintain a strong internal control environment;

(d) Monitor the effectiveness of internal controls.

62. The effective application of internal controls within UNDP is achieved through the following institutionalized processes:

(a) "Front-line" controls: These functions are carried out by all organizational personnel at field, regional and headquarters offices. This is done by applying existing policies and procedures in their daily work to ensure that objectives are met and resources entrusted to UNDP are properly managed;

(b) Oversight controls: These controls are designed to monitor the operational effectiveness of "front-line" controls and mitigate related risks and are exercised by regional offices and headquarter divisions. They include functions such as financial performance monitoring, planning and budgeting processes, quality management and assurance, results and performance management, etc.;

(c) Independent internal oversight controls: These controls are performed internally within UNDP and are designed to provide independent and objective assurance on the efficiency and effectiveness of processes and controls put in place by management. They are undertaken by the Office of Audit and Investigations, the Independent Evaluation Office and the Ethics Office, which issue annual reports to the Executive Board of UNDP;

(d) External oversight: Internal oversight performed internally within UNDP is supplemented by external bodies, which include the UNDP Executive Board, the Audit and Evaluation Advisory Committee, the external auditors (United Nations Board of Auditors) and regulatory authorities.

Accounting matters

Critical accounting estimates

63. Preparing financial statements in accordance with IPSAS requires UNDP to make estimates, judgments and assumptions in the selection and application of accounting policies and in the reported amounts of assets, liabilities, revenues and expenses. For this reason, actual results may differ from those estimates. Accounting estimates and underlying assumptions are reviewed on an ongoing basis and revisions

to estimates are recognized in the year in which the estimates are revised and in any future year affected. Significant estimates and assumptions that may result in material adjustments in future years include:

- Revenue recognition
- Actuarial measurement of employee benefits
- Selection of useful lives and the depreciation/amortization method for property, plant and equipment and intangible assets
- Valuation of investment assets
- Impairment losses on assets
- Classification of financial instruments
- Contingent assets and liabilities.

64. UNDP management periodically discusses the development, selection and disclosure of critical accounting policies and estimates. While the estimates and assumptions are based on knowledge of current events and actions that may be undertaken in the future, actual results may ultimately differ from these estimates and assumptions. The significant accounting policies are disclosed in note 4 to the financial statements.

Changes in accounting policies in 2017

65. In 2017, UNDP changed its accounting policy for workers' compensation and now recognizes the expected cost of workers' compensation claims as determined by independent actuaries. The change is disclosed in note 5 to the UNDP financial statements.

Adoption of new accounting standards

66. In January 2018, the IPSAS Board published its Proposed Strategy and Workplan 2019–2023 and announced that while maintaining convergence with International Financial Reporting Standards, public sector specific projects are a major area of the IPSAS Board's current and future work.

67. Among these projects, those that could have a significant impact on UNDP include:

- Revenues: The aim of the project is to develop one or more accounting standards covering revenue transactions (i.e., both exchange and non-exchange).
- Non-exchange expenses: The aim of this project is to address the lack of international guidance on the recognition and measurement for non-exchange expenses.

68. Although these projects are currently active, they have yet to result in exposure drafts and, therefore, implementation dates have not been specified and it is unlikely that the projects will be finalized before 2020.

69. The only relevant new standard that impacts UNDP in 2018 is IPSAS 39: Employee benefits, issued by the IPSAS Board in July 2016. IPSAS 39 has replaced the existing IPSAS 25 to align with the underlying International Accounting Standard IAS 19. The effective date of application of IPSAS 39 was 1 January 2018. The main differences between IPSAS 39 and IPSAS 25 are:

- Recognition: IPSAS 39 removed the "corridor approach", which was permitted by IPSAS 25 to defer the recognition of certain actuarial gains and losses arising from defined benefit plans.

- Presentation: IPSAS 39 eliminates presentational options on actuarial gains/ losses that previously existed in IPSAS 25.
- Disclosure: Under IPSAS 39, disclosure objectives for defined benefit plans will be in accordance with the characteristics, the risks associated with them and their relationship with the entity's financial statement.

70. Consequently, based on the initial assessment of the new standard, IPSAS 39 will not have any significant impact on the UNDP financial statements, primarily because UNDP does not use the corridor method.

Transactions with related parties

71. UNDP transacts with related parties and discloses information on key management personnel in note 32 to the financial statements. Further information is as follows:

- The United Nations and other United Nations entities: UNDP is engaged in United Nations system initiatives such as joint funding arrangements (multi-donor trust funds and joint programmes) and common services arrangements. Within joint funding mechanisms, United Nations entities work together to implement activities and achieve results. Each of the participating United Nations entities assumes its share of responsibilities related to planning, implementing, monitoring and evaluating these activities.
- Key management personnel: Refer to note 32 for details. The leadership structure of UNDP consists of an Executive Group of 13 members. The Executive Group is responsible for the strategic direction and operational management of UNDP and is entrusted with significant authority to execute the UNDP mandate. Collectively, the Executive Group comprises four tiers: an Under-Secretary-General and Administrator (Administrator); an Under-Secretary-General (Associate Administrator); nine Assistant Secretaries-General (Assistant Administrators); and a Special Adviser to the Administrator/Senior Adviser on Business Model and Processes and a Chief of Staff and Director (Chief of Staff and Director, Office of the Administrator (ex officio)).
- Other related parties: UNDP is a cosponsoring organization of the Joint United Nations Programme on HIV/AIDS (UNAIDS), an innovative joint effort of the United Nations family to respond in a coordinated manner on the issue of HIV/AIDS. UNDP participates in setting the financial and operating policies of the Programme Coordinating Board of UNAIDS, which is headquartered in Geneva.

Audit services and fees

72. The following table discloses fees charged to UNDP by the United Nations Board of Auditors. The only fees paid to the Board by UNDP are those related to the statutory financial statement audit.

(Thousands of United States dollars)

	2017	*2016*
Audit fees	1 259	1 259

H. Looking forward to 2018 and beyond

Strategic plan, 2018–2021

73. In November 2017, the Executive Board approved the UNDP vision for the strategic plan, 2018–2021, as follows: "to help countries to achieve sustainable development by eradicating poverty in all its forms and dimensions, accelerating structural transformations for sustainable development and building resilience to crises and shocks". Guided by the integrative approach embodied in the 2030 Agenda for Sustainable Development, the UNDP approach is aimed at effectively supporting sustainable development across these three broad development settings.

Glossary

Accumulated surplus	Formerly referred to as "unexpended resources or unspent balance". It represents accumulated funds at the end of the reporting period.
Cost classification	Set of criteria and the process of determining programme implementation versus administration costs and clarifying distinctions between those costs.
Development activities	Activities associated with "programmes" and "development effectiveness" activities essential for achieving development results. (a) Programmes: Activities traced to specific programme components or projects, which contribute to delivering development results contained in country/regional/global programme documents or other programming arrangements. (b) Development effectiveness activities: Activities of a policy-advisory, technical and implementation nature needed to achieve the objectives of programmes and projects in the areas of focus of UNDP. While essential to the delivery of development results, they are not included in specific programme components or projects in country, regional or global programme documents.
Elimination	Represents the accounting adjustment to remove the effect of internal UNDP cost-recovery revenue and general management support expense from total UNDP amounts.
Expenditure	Utilization of available financial resources, across harmonized cost classification categories.
Expenses	Expenses include disbursements and accruals for goods received and services rendered, and the use or impairment of assets, dependent on the implementation arrangement.
International Federation of Accountants	The International Federation of Accountants is the global organization for the accountancy profession dedicated to serving the public interest by strengthening the profession and contributing to the development of strong international economies. The Federation is comprised of over 175 members and associates in more than 130 countries and jurisdictions, representing almost 3 million accountants in public practice, education, government service, industry and commerce.
Institutional budget	The institutional component of the integrated budget covering activities over a period based on a set of defined results from the strategic plan.
IPSAS: International Public Sector Accounting Standards	Independently developed accounting standards which have been considered the best accounting practice by public sector organizations.
International Public Sector Accounting Standards Board	The International Public Sector Accounting Standards Board develops accounting standards and guidance for use by public sector entities. The structures and processes that support the operations of the International Public Sector Accounting Standards Board are facilitated by the International Federation of Accountants.

Management activities	Activities whose primary function is the promotion of the identity, direction and well-being of an organization. These include executive direction, representation, external relations and partnerships, corporate communications, legal, oversight, audit, corporate evaluation, information technology, finance, administration, security and human resources.
Other resources (non-core resources)	Resources of a voluntarily funded organization that are received for a specific programme purpose and for the provision of specific services to third parties. Resources that fall under this category are: cost-sharing, trust funds established by the Administrator, reimbursable support services and miscellaneous activities.
Operational reserve	A reserve established in 1979 by the Governing Council (now the Executive Board) of UNDP to ensure adequate liquidity of UNDP by funding such reserve through a defined formula that is calculated yearly.
Regular resources (core resources)	Resources of UNDP that are commingled and untied. They include voluntary contributions, contributions from governmental, intergovernmental or non-governmental sources, and related interest earnings and miscellaneous income.
Reimbursable support services and miscellaneous activities	Resources under UNDP other resources (other than cost-sharing and trust funds). Such funds are received for the provision of management and other support services to third parties, including management services agreements; the Junior Professional Officers programme, reimbursable support services; the United Nations Volunteers programme, programme support to Resident Coordinators; and special purpose activities.
Revenue	Consists of: (a) contributions; (b) investment revenue; and (c) other revenue (see below). (a) Contributions: Contributions are recognized when contribution agreements are signed or cash is received where no contribution agreement is required. Voluntary contributions may also include in-kind contributions and cash contributions provided by programme country governments for government local office costs. Contributions, net: Net contributions after returns of unused contributions to donors and transfers of funds have been deducted. (b) Investment revenue: Interest inflows from UNDP investments. (c) Other revenue: Revenue from sources other than contributions and investments, for example, revenue from the sale of goods and provision of services, such as procurement, training and other services to governments, United Nations agencies and other parties, foreign exchange gains, common services and miscellaneous revenue, and cost-recovery revenue.
Special purpose activities	Activities and associated costs of (a) capital investments; and (b) non-UNDP operations administered by UNDP.
United Nations development coordination activities	Activities and associated costs supporting the coordination of development activities of the United Nations system.

Chapter IV

Financial statements for the year ended 31 December 2017

United Nations Development Programme

I. Statement of financial position as at 31 December 2017

(Thousands of United States dollars)

	Reference	*31 December 2017*	*31 December 2016 (restated)*
Assets			
Current assets			
Cash and cash equivalents	Note 8	837 339	794 407
Cash and cash equivalents — funds held in trust	Note 8	208 597	123 044
Investments	Note 9	2 670 610	3 222 252
Investments — funds held in trust	Note 9	264 707	241 914
Receivables — non-exchange transactions	Note 10	136 721	124 085
Receivables — exchange transactions	Note 11	77 584	47 043
Advances issued	Note 12	160 723	201 890
Loans to governments	Note 15	507	590
Inventories	Note 13	13 652	7 564
Other current assets	Note 14	689	1 168
Total current assets		**4 371 129**	**4 763 957**
Non-current assets			
Investments	Note 9	2 669 034	1 950 018
Investments — funds held in trust	Note 9	61 360	52 192
Loans to governments	Note 15	4 564	6 013
Property, plant and equipment	Note 16	156 490	155 465
Intangible assets	Note 17	9 504	7 629
Other non-current assets	Note 14	26	8
Total non-current assets		**2 900 978**	**2 171 325**
Total assets		**7 272 107**	**6 935 282**
Liabilities			
Current liabilities			
Accounts payable and accrued liabilities	Note 18	213 825	192 838
Advances payable	Note 19	31 449	21 273
Funds received in advance and deferred revenue	Note 20	31 620	100 623
Funds held on behalf of donors	Note 20	18 103	20 463
Payables — funds held in trust	Note 21	639 293	506 202
Employee benefits	Note 22	214 485	215 547
Other current liabilities	Note 23	9 873	7 674
Provision for restructuring	Note 34	–	147
Total current liabilities		**1 158 648**	**1 064 767**

United Nations Development Programme

I. Statement of financial position as at 31 December 2017 (continued)

	Reference	*31 December 2017*	*31 December 2016 (Restated)*
Non-current liabilities			
Payables — funds held in trust	Note 21	61 360	52 192
Funds received in advance and deferred revenue	Note 20	7 471	7 252
Employee benefits	Note 22	1 402 305	1 120 905
Other non-current liabilities	Note 23	722	772
Total non-current liabilities		**1 471 858**	**1 181 121**
Total liabilities		**2 630 506**	**2 245 888**
Net assets/equity			
Reserves	Note 24	302 160	325 127
Accumulated surpluses	Note 25	4 339 441	4 364 267
Total net assets/equity		**4 641 601**	**4 689 394**
Total liabilities and net assets/equity		**7 272 107**	**6 935 282**

The accompanying notes form an integral part of these financial statements.

United Nations Development Programme

II. Statement of financial performance for the year ended 31 December 2017

(Thousands of United States dollars)

	Reference	*2017*	*2016 (reclassified)*
Revenue			
Voluntary contributions	Note 26	4 892 099	4 785 121
Revenue: exchange transactions	Note 27	175 399	196 507
Investment revenue	Note 28	88 402	52 925
Other revenue	Note 29	80 524	68 020
Total revenue		**5 236 424**	**5 102 573**
Expenses			
Contractual services	Note 30	2 030 227	1 836 910
Staff costs	Note 30	882 598	891 979
Supplies and consumables used	Note 30	994 196	767 670
General operating expenses	Note 30	861 408	835 933
Grants and other transfers	Note 30	249 456	245 415
Other expenses	Note 30	54 554	57 543
Depreciation and amortization	Note 30	18 668	18 104
Finance costs	Note 30	3 668	5 972
Total expenses		**5 094 775**	**4 659 526**
Surplus/(deficit) for the year		**141 649**	**443 047**

The accompanying notes form an integral part of these financial statements.

United Nations Development Programme

III. Statement of changes in net assets/equity for the year ended 31 December 2017

(Thousands of United States dollars)

	Reserves	*Accumulated surpluses*	*Total net assets/equity*
Balance at 31 December 2016	**325 127**	**4 380 724**	**4 705 851**
Change in accounting policy (note 5)	–	(16 457)	(16 457)
Balance at 31 December 2016 (restated)	**325 127**	**4 364 267**	**4 689 394**
Changes in net assets/equity			
Operational reserve transfer to accumulated surplus	(22 967)	22 967	–
Funds with specific purposes (note 25)	–	9 210	9 210
Changes in fair value of available-for-sale investments	–	31 181	31 181
Actuarial gains/(losses)	–	(229 833)	(229 833)
Surplus/(deficit) for the year	–	141 649	141 649
Total changes in net assets/equity	**(22 967)**	**(24 826)**	**(47 793)**
Balance at 31 December 2017	**302 160**	**4 339 441**	**4 641 601**

The accompanying notes form an integral part of these financial statements.

United Nations Development Programme

IV. Cash flow statement for the year ended 31 December 2017

(Thousands of United States dollars)

	Reference	*2017*	*2016 (reclassified)*
Cash flows from operating activities			
Surplus/(deficit) for the year		141 649	443 047
Adjustments to reconcile deficit for the year to net cash flows:			
Depreciation and amortization		18 668	18 104
Impairment		185	96
In-kind contributions (donated goods)		(129)	(1 143)
Amortization of premium/(discount) on investments		4 013	26 446
(Gains)/losses on foreign exchange translation		(6 986)	18 382
Losses on disposal of property, plant and equipment		4 294	2 927
Changes in assets			
(Increase)/decrease in receivables: non-exchange transactions		(11 800)	(61 114)
(Increase)/decrease in receivables: exchange transactions a		(114 482)	44 466
(Increase)/decrease in advances issued		39 947	(43 068)
(Increase)/decrease in inventories		(6 088)	12 008
(Increase)/decrease in other current assets		461	45
Changes in liabilities, net assets/equity			
(Decrease)/increase in accounts payable and accrued liabilities		18 599	73 003
(Decrease)/increase in advances payable		10 176	9 034
(Decrease)/increase in funds received in advance and deferred revenue		(68 784)	(73 976)
(Decrease)/increase in funds held on behalf of donors		(2 360)	(10 749)
(Decrease)/increase in payables: funds held in trust		142 259	25 017
(Decrease)/increase in employee benefits		50 567	38 683
(Decrease)/increase in other current liabilities		2 231	(1 014)
(Decrease)/increase in provision for restructuring		(147)	(2 325)
(Decrease)/increase in funds with specific purposes		9 210	18 706
Cash flows from/(used in) operating activities		**231 483**	**536 575**
Cash flows from investing activities			
Purchases of investments		(4 924 600)	(3 758 228)
Maturities of investments		5 046 085	3 709 201
(Increase)/decrease in investments – funds held-in-trust		(31 961)	35 473
(Increase)/decrease in investments managed by external investment manager		(261 691)	(185 972)
Interest and dividends received		83 157	84 042
(Increase)/decrease in loans to governments		1 532	862
Purchases of property, plant and equipment		(24 473)	(31 916)
Disposals of property, plant and equipment		3 035	4 432
Purchases of intangible assets		(4 352)	(2 208)
Disposal of intangible assets		57	–
Cash flows from/(used in) investing activities		**(113 211)**	**(144 314)**

United Nations Development Programme

IV. Cash flow statement for the year ended 31 December 2017 (continued)

	Reference	*2017*	*2016 (reclassified)*
Cash flows from financing activities			
Finance lease repayment		(43)	(38)
Cash flows from/(used in) financing activities		**(43)**	**(38)**
Increase/(decrease) in cash and cash equivalents, including funds held in trust		**118 229**	**392 223**
Effect of exchange rate changes on cash and cash equivalents		**10 256**	**(8 752)**
Cash and cash equivalents including funds held in trust: beginning of year		**917 451**	**533 980**
Cash and cash equivalents including funds held in trust: end of year	Note 8	**1 045 936**	**917 451**

[a] This amount includes an adjustment for interest and dividends received of $83.157 million in cash as well as an adjustment for foreign exchange translation of $(0.784) million.

The accompanying notes form an integral part of these financial statements.

United Nations Development Programme

V. (a) Statement of comparison of budget and actual amounts (regular resources) for the year ended 31 December 2017

(Thousands of United States dollars)

	Approved budget		*Actual expenditure on comparable basis (note 7)*	*Difference: final approved budget and actual expenditure*
	Original	*Final*		
Development activities				
Programme	722 090	722 090	345 294	376 796
Development effectiveness	121 909	121 909	69 666	52 243
Subtotal	**843 999**	**843 999**	**414 960**	**429 039**
United Nations development coordination activities	**95 851**	**95 851**	**91 978**	**3 873**
Management activities				
Recurring	143 438	143 438	92 061	51 377
Non-recurring	2 591	2 591	–	2 591
Subtotal	**146 029**	**146 029**	**92 061**	**53 968**
Special purpose activities				
Capital investments	4 463	4 463	929	3 534
Non-UNDP operations administered by UNDP	15 453	15 453	9 280	6 173
Subtotal	**19 916**	**19 916**	**10 209**	**9 707**
Grand total	**1 105 795**	**1 105 795**	**609 208**	**496 587**

The accompanying notes form an integral part of these financial statements.

United Nations Development Programme

V. (b) Statement of comparison of budget and actual amounts (regular resources) for the biennium 2016–2017

	Final approved budget			*Actual expenditure on a comparable basis (note 7)*			*Difference: final approved biennium budget and biennium actual expenditure*
	2017	*2016*	*Biennium*	*2017*	*2016*	*Biennium*	
Development activities							
Programme	722 090	392 000	1 114 090	345 294	381 556	726 850	387 240
Development effectiveness	121 909	100 091	222 000	69 666	60 492	130 158	91 842
Subtotal	**843 999**	**492 091**	**1 336 090**	**414 960**	**442 048**	**857 008**	**479 082**
United Nations development coordination activities	95 851	92 719	188 570	91 978	92 551	184 529	4 041
Management activities							
Recurring	143 438	137 813	281 251	92 061	77 568	169 629	111 622
Non-recurring	2 591	2 489	5 080	–	–	–	5 080
Subtotal	**146 029**	**140 302**	**286 331**	**92 061**	**77 568**	**169 629**	**116 702**
Special purpose activities							
Capital investments	4 463	4 288	8 751	929	518	1 447	7 304
Non-UNDP operations administered by UNDP	15 453	14 847	30 300	9 280	8 597	17 877	12 423
Subtotal	**19 916**	**19 135**	**39 051**	**10 209**	**9 115**	**19 324**	**19 727**
Total	**1 105 795**	**744 247**	**1 850 042**	**609 208**	**621 282**	**1 230 490**	**619 552**

The accompanying notes form an integral part of these financial statements.

United Nations Development Programme
Notes to the financial statements 2017

Note 1
Reporting entity

1.1. The United Nations Development Programme (UNDP) was established by the General Assembly in 1965 through its resolution 2029 (XX). UNDP partners with entities/people at all levels of society to help build nations that can withstand crisis and drive and sustain growth that improves the quality of life for everyone.

1.2. UNDP has its headquarters in New York, but works primarily through its global network of offices. UNDP provides a global perspective and local insight to help empower lives and build resilient nations.

1.3. UNDP helps to achieve the eradication of poverty, and the reduction of inequalities and exclusion, and assists countries in developing policies, leadership skills, partnering abilities and institutional capabilities and in building resilience in order to sustain development results. UNDP is continuing its work to support the 2030 Agenda for Sustainable Development and the 17 Sustainable Development Goals, as they help shape global sustainable development efforts for the next 15 years. UNDP helps developing countries attract and use development cooperation and domestic resources effectively and encourages, in all its activities, the protection of human rights, capacity development and the empowerment of women.

1.4. UNDP is politically neutral and its cooperation is impartial. It seeks to conduct its work in a transparent manner and is accountable to all its stakeholders. UNDP has an Executive Board, established by the General Assembly in its resolution 48/162, which is responsible for providing intergovernmental support to and supervision of UNDP. The amended Financial Regulations and Rules of UNDP (Executive Board decision 2011/33), govern the financial management of UNDP.

1.5. The financial statements include only the operations of UNDP, which has no subsidiaries or interests in associates or jointly controlled entities.

Note 2
Statement of compliance with the International Public Sector Accounting Standards

The annual financial statements of UNDP have been prepared in accordance with the International Public Sector Accounting Standards (IPSAS).

Note 3
Basis of preparation and authorization to submit financial statements for audit

Basis of measurement

3.1. These financial statements are prepared on an accrual basis of accounting in accordance with IPSAS and the Financial Regulations and Rules of UNDP.

3.2. UNDP applies the historical cost principle except where stated in note 4. Accounting policies have been applied consistently throughout the year. The financial year is from January to December.

Foreign currency

3.3. The functional and presentation currency of UNDP is the United States dollar. These financial statements are expressed in thousands of United States dollars unless otherwise stated.

3.4. Foreign currency transactions are translated into United States dollars at the United Nations operational rates of exchange at the date of the transaction. The operational rates of exchange approximate market/spot rates.

3.5. Monetary assets and liabilities denominated in foreign currencies are translated at the exchange rate in effect at the reporting date and are recognized in the statement of financial performance.

3.6. Non-monetary items in foreign currencies measured at historical cost are translated at the exchange rate in effect at the date of the transaction.

3.7. Foreign exchange gains and losses resulting from the settlement of foreign currency transactions are recognized in the statement of financial performance.

Critical accounting estimates

3.8. Preparing financial statements in accordance with IPSAS requires UNDP to make estimates, judgments and assumptions in the selection and application of accounting policies and in the reported amounts of assets, liabilities, revenues and expenses. For this reason, actual results may differ from those estimates. Accounting estimates and underlying assumptions are reviewed on an ongoing basis and revisions to estimates are recognized in the year in which the estimates are revised and in any future year affected. Significant estimates and assumptions that may result in material adjustments in future years include: actuarial measurement of employee benefits; selection of useful lives and the depreciation/amortization method for property, plant and equipment/intangible assets; impairment on assets; classification of financial instruments; valuation of investment assets; revenue recognition; and contingent assets and liabilities.

Authorization to submit financial statements for audit

3.9. These financial statements are approved and certified by the Administrator, the Assistant Administrator and Director of the Bureau for Management Services and the Chief Finance Officer/Comptroller of the Bureau for Management Services of UNDP. In accordance with the UNDP Financial Regulations and Rules, these financial statements are authorized to be submitted for audit on 30 April 2018.

Note 4
Significant accounting policies

Financial assets classification

4.1. UNDP classifies financial assets into the following categories: held to maturity; available for sale; loans and receivables; and fair value through surplus or deficit in the statement of financial performance. The classification depends on the purpose for which the financial assets are acquired, and is determined at initial recognition and re-evaluated at each reporting date. All financial assets are initially measured at fair value. UNDP initially recognizes loans and receivables on the date that they originated. All other financial assets are recognized initially on the trade date, which is the date UNDP becomes party to the contractual provisions of the instrument.

4.2. Financial assets with maturities in excess of 12 months at the reporting date are categorized as non-current assets in the financial statements. Assets denominated in foreign currency are translated into United States dollars at the United Nations operational rates of exchange prevailing at the reporting date, with gains and losses recognized in surplus or deficit in the statement of financial performance.

IPSAS classification	*Type of UNDP financial asset*
Held to maturity	Investments, excluding after-service health insurance investments
Available for sale	After-service health insurance investments
Loans and receivables	Cash and cash equivalents, receivables non-exchange and exchange, advances (e.g. to staff) and loans to governments
Fair value through surplus or deficit	Derivative assets

Held-to-maturity financial assets

4.3. Held-to-maturity financial assets are financial assets with fixed or determinable payments and fixed maturities that UNDP has the positive intention and ability to hold to maturity. They are initially recorded at fair value plus transaction costs and subsequently recognized at amortized cost calculated using the effective interest rate method. UNDP classifies a substantial portion of its investment portfolio as held-to-maturity assets.

Available-for-sale financial assets

4.4. Available-for-sale financial assets are those non-derivative financial assets that have been either designated in this category or are not classified as (a) loans and receivables, (b) held-to-maturity investments or (c) financial assets at fair value through surplus or deficit. They are initially recorded at fair value plus transaction costs that are directly attributable to the acquisition or issue of those assets and subsequently reported at fair value with any resultant fair value gains or losses recognized directly in net assets/equity through the statement of changes in net assets/equity, until the financial asset is derecognized, at which time the cumulative gain or loss previously recognized in net assets/equity shall be recognized in surplus or deficit. Fair values used for subsequent measurement are based on quoted market prices from knowledgeable third parties. Interest on available-for-sale financial assets is calculated using the effective interest method and is recognized in surplus or deficit.

Loans and receivables

4.5. Loans and receivables are financial assets with fixed or determinable payments that are not quoted in an active market. They are initially recorded at fair value plus transaction costs and subsequently reported at amortized cost calculated using the effective interest method. Interest revenue is recognized on a time proportion basis using the effective interest rate method on the respective financial asset.

4.6. Cash and cash equivalents include cash and short-term, highly liquid investments that are readily convertible to known amounts of cash and are subject to an insignificant risk of changes in value, net of impairment for restricted use currencies. Financial instruments classified as cash equivalents include investments with a maturity of three months or less from the date of acquisition.

4.7. Receivables — non-exchange transactions comprise contributions receivable which represent uncollected revenue committed to UNDP by donors based on enforceable commitments which are recognized as revenue. These non-exchange receivables are stated at carrying value less impairment for estimated irrecoverable amounts. Impairments of contributions receivable are considered on a case-by-case basis.

4.8. Receivables — exchange transactions represent amounts owed to UNDP for services provided by it to other entities. In exchange, UNDP directly receives approximately equal value in the form of cash.

4.9. Advances issued represents cash transferred to executing entities/ implementing partners (refer to note 36.2 for the definition of executing entities/ implementing partners) as an advance. Advances issued are initially recognized as assets and subsequently converted to expense when goods are delivered or services are rendered by the executing entities/implementing partners and confirmed by receipt by UNDP of certified expense reports as applicable, i.e., financial reports, funding authorization and certificate of expenditure forms or project delivery reports. Once those certified expense reports are received, UNDP recognizes expenses in its statement of financial performance. Data may be obtained from the entities' audited statements or, when such statements are not available at the end of the reporting year, either from the statements submitted by the entities for audit or from the unaudited statements of the entities.

4.10. Prepayments are issued where agreements with UNDP and the executing entity/implementing partner/supplier require up-front payment. Prepayments are recorded as a current asset until goods/services associated with the prepayments are delivered, at which point the expense is recognized and the prepayment is reduced by a corresponding amount.

4.11. UNDP provides salary advances for specified purposes in accordance with the Staff Rules and Staff Regulations of the United Nations. These advances have an initial maturity of less than 12 months, and the carrying amount approximates fair value. The carrying amount is stated less any impairment.

4.12. Loans to governments are loans given to national governments to construct office or housing premises for use by UNDP and United Nations entities. Loans are carried at the original cost, less any recovery to date. Rent proceeds are applied as repayment of the loan. Subsequent measurement of loans to governments is at amortized cost less any impairment.

Fair value through surplus or deficit

4.13. Financial assets at fair value through surplus and deficits are so designated on initial recognition or are held for trading. They are initially recorded at fair value and any transaction costs are expensed. The assets are measured at fair value at each reporting date, and any resultant fair value gains or losses recognized through surplus and deficit. Derivatives are used to manage foreign exchange risk and are contracted with creditworthy counterparties in accordance with UNDP Investment Guidelines. UNDP classifies derivatives as financial assets at fair value through surplus and deficit in the statement of financial performance. The fair value of derivatives is obtained from counterparties and is compared to internal valuations, which are based on valuation methods and techniques generally recognized as standard in the industry. Assets in this category are classified as current assets if they are expected to be realized within 12 months of the reporting date. UNDP does not apply hedge accounting treatment for derivatives.

4.14. All categories of financial assets are assessed at each reporting date to determine whether there is objective evidence that an investment or group of investments is impaired. Evidence of impairment includes default or delinquency of the counterparty or permanent reduction in the value of the asset. Impairment losses are recognized in surplus or deficit in the statement of financial performance (directly or through the use of an allowance account) in the year they arise.

Inventories

4.15. Inventories held for distribution at no charge or for a nominal charge are stated at the lower of cost and current replacement cost. Inventories held for sale are stated at the lower of cost and net realizable value. Net realizable value is the estimated selling price in the ordinary course of business, less the costs of completion and selling expenses. Cost is determined using the first-in, first-out inventory valuation method. The cost of inventories includes costs incurred in acquiring the inventories and other costs incurred in bringing them to their existing location and condition. For inventories acquired through a non-exchange transaction (e.g., donated goods), costs are measured at fair value at the date of acquisition.

Property, plant and equipment

4.16. All items of property, plant and equipment are stated at historical cost, less accumulated depreciation and accumulated impairment losses. It is noted that, on adoption of IPSAS and its transitional provisions, for opening balances, initial capitalization of property, plant and equipment was at fair value. Historical cost includes costs that are directly attributable to the acquisition of the asset and the initial estimate of dismantling and site restoration costs. Where an asset is acquired for nil or nominal consideration, the fair value at the date of acquisition is deemed to be its cost. The threshold for recognition of property, plant and equipment as an asset is $1,500 or more per unit.

4.17. UNDP elected to apply the cost model to measurement after recognition instead of the revaluation model. Subsequent costs are included in the asset's carrying amount or are recognized as a separate asset only when it is probable that future economic benefits associated with the item will flow to UNDP and the cost of the item can be measured reliably. Repairs and maintenance are charged to surplus or deficit in the statement of financial performance in the year in which they are incurred.

4.18. Project assets that are not controlled by UNDP are expensed as incurred. UNDP is deemed to control an asset if it can use or otherwise benefit from the asset in pursuit of its objectives and if it can exclude or regulate the access of third parties to that asset. UNDP has control over assets when it is implementing the project directly.

4.19. Property, plant and equipment includes right-to-use arrangements for property that meets the criteria for recognition (refer to the section on "leases" below).

4.20. Depreciation of property, plant and equipment is calculated using the straight-line basis over the estimated useful lives, except for land, which is not subject to depreciation. When parts of an item of property, plant and equipment have different useful lives, they are accounted for as separate items, that is, major components of property, plant and equipment. Assets under construction are not depreciated, as they are not yet available for use.

The estimated useful lives are as follows:

Class	*Estimated useful life (in years)*
Buildings	10–40
Vehicles	12
Communications and information technology equipment	8–20
Furniture and fixtures	15
Heavy machinery and other equipment	20
Leasehold improvements	Shorter of lease term or life of applicable asset

4.21. Given the expected pattern of usage of property, plant and equipment, there are no residual values following full depreciation. A gain or loss resulting from the disposal of property, plant and equipment arises where proceeds from disposal differ from its carrying amount. Those gains or losses are recognized in surplus or deficit in the statement of financial performance.

4.22. Where UNDP sublets premises acquired under a lease, it elects to record subsequent measurement at cost.

Intangible assets

4.23. Intangible assets are carried at historical cost, less accumulated amortization and accumulated impairment loss.

4.24. Acquired computer software licences are capitalized on the basis of the costs incurred to acquire and bring to use the specific software. Development costs that are directly associated with the development of software for use by UNDP are capitalized as an intangible asset. Directly associated costs include the software development staff costs and the portion attributable to relevant overhead. Other development expenses that do not meet the capitalization criteria are recognized as an expense as incurred. Development costs previously recognized as an expense, for example, research costs, are not recognized as an asset in a subsequent year. The threshold for recognition of internally developed software is $50,000 and for externally acquired software it is $5,000. Research costs are expensed as incurred.

4.25. Amortization is recognized in surplus or deficit in the statement of financial performance provided on a straight-line basis on all intangible assets of finite life and at rates that will write off the cost or value of the assets to their estimated residual values.

The estimated useful lives are as follows:

Class	*Estimated useful life (in years)*
Software acquired	3–6
Internally developed software	3–6
Trademarks	2–6
Copyrights	3–10
Patents	2–6
Licences and other	2–6

4.26. If there is a binding arrangement that specifies that the contractual period of an asset is shorter than its estimated useful life, then the asset is amortized over the contractual period.

Impairment of non-cash generating assets

4.27. Property, plant and equipment, intangible and other non-cash generating assets are reviewed for impairment at each reporting date. For property, plant and equipment, UNDP reviews for impairment during the semi-annual physical verification process. An impairment loss is recognized in surplus or deficit in the statement of financial performance when the carrying amount of an asset exceeds its recoverable amount. The recoverable amount of an asset is the higher of an asset's fair value, less costs to sell, and its value in use.

4.28. Impairment losses recognized in prior periods are assessed at each reporting date for any indications that the impairment of value has decreased or no longer exists. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortization, if no impairment deficit had been recognized.

Financial liabilities classification

IPSAS classification	*Types of financial liabilities*
Other financial liabilities	Accounts payable and accrued liabilities, funds held on behalf of donors, advances payable, other liabilities and payables — funds held in trust
Fair value through surplus or deficit	Derivative liabilities

Other financial liabilities

4.29. Other financial liabilities are initially recognized at fair value, plus directly attributable transaction costs, and subsequently measured at amortized cost using the effective interest method. Financial liabilities entered into with a duration of less than 12 months are recognized at their carrying value.

4.30. Payables and accruals arising from the purchase of goods and services are recognized initially at fair value and subsequently measured at amortized cost when goods/services are delivered/rendered and accepted by UNDP. Liabilities are stated at invoice amounts, less payment discounts at the reporting date. Liabilities are estimated where invoices are not available at the reporting date.

4.31. Advances payable arise when amounts are owed to executing entities/implementing partners. The liability is measured at the amount owed based on incurred expenses reflected in the approved financial reports, Funding Authorization and Certificate of Expenditure forms or project delivery reports for the year.

4.32. Payables — funds held in trust represent the receipt of funds by UNDP when providing fund administration services, to be disbursed to participating organizations. When UNDP is appointed as an administrative agent, it provides fund administration services to United Nations system and national government multi-donor trust funds and joint programmes through the Multi-Partner Trust Fund Office. In this role, UNDP is responsible for the receipt of contributions from donors, the disbursement of such funds to participating organizations, the receipt of unspent balances from participating organizations, and the provision of consolidated reporting to donors and stakeholders. Under this arrangement, funds received by UNDP from donors are reflected as cash and cash -equivalent funds held in trust or investment funds held in trust along with a corresponding liability, that is as payables, funds held in trust until they are disbursed to participating organizations.

4.33. Other liabilities include unapplied deposits and other payables such as finance lease payable. Unapplied deposits represent contributions received from donors that have not been applied against contributions receivable for earmarked activities.

Fair value through surplus or deficit

4.34. Fair value through surplus and deficit financial liabilities are so designated on initial recognition or are held for trading. They are initially recorded at fair value and any transaction costs are expensed. The liabilities are measured at fair value at each reporting date and any resultant fair value gains or losses are recognized through surplus and deficit. UNDP classifies derivatives as financial liabilities at fair value through surplus and deficit in the statement of financial performance. Derivatives are used to manage foreign exchange risk and are contracted with creditworthy counterparties in accordance with UNDP Investment Guidelines. These include derivatives embedded in time deposits that permit the instrument to be repaid by counterparties in an alternative currency in exchange for a higher yield. The fair value of derivatives is obtained from counterparties and is compared to internal valuations, which are based on valuation methods and techniques generally recognized as standard in the industry. Liabilities in this category are classified as current liabilities if they are expected to be settled within 12 months of the reporting date. UNDP does not apply hedge accounting treatment for derivatives.

Funds received in advance and deferred revenue

4.35. Funds received in advance represent contributions received for future periods specified in donor contribution agreements. The funds are recognized as revenue and applied to the earmarked activities at the beginning of the specified future period. Deferred revenue represents funds received from donors that will be recognized as revenue in future years when conditions are met or the revenue is earned.

Employee benefits

Short-term employee benefits

4.36. Short-term employee benefits are those that are expected to be settled within 12 months after the end of the year in which employees render the related service. Those benefits include assignment benefits, regular monthly benefits (e.g., wages and salaries), compensated absences (e.g., paid leave, such as annual leave), other short-term and non-monetary benefits and the current portion of long-term benefits provided to current employees. An expense is recognized when a staff member provides services in exchange for employee benefits. A liability is reported for any entitlement that has not been settled at the reporting date and represents the amount paid or expected to be paid to settle the liability. Owing to the short-term nature of those entitlements, the liabilities are not discounted for the time value of money and are presented as current liabilities.

Post-employment benefits

4.37. Post-employment benefits are those payable after completion of employment, but exclude termination payments.

4.38. Post-employment benefits include pension plans, post-employment medical care, repatriation grants and other lump sums payable after the completion of employment. Post-employment benefit plans are classified as either defined contribution or defined benefit plans.

4.39. For defined contribution post-employment plans, the obligation for each year is determined by the amounts to be contributed for that year, and no actuarial assumptions are required to measure the obligation or the expense. Post-employment benefits under defined benefit plans are measured at the present value of the defined benefit obligation adjusted for unrecognized actuarial gains and losses and unrecognized past service cost, reduced by the fair value of plan assets, if any, at the reporting date. UNDP does not hold any assets corresponding to the definition of a plan asset.

4.40. UNDP is a member organization participating in the United Nations Joint Staff Pension Fund, which was established by the General Assembly to provide retirement, death, disability and related benefits to staff. The Pension Fund is a funded, multi-employer defined benefit plan. As specified by article 3 (b) of the Regulations of the Fund, membership in the Fund is open to the specialized agencies and to any other international intergovernmental organization which participates in the common system of salaries, allowances and other conditions of service of the United Nations and the specialized agencies.

4.41. The plan exposes participating organizations to actuarial risks associated with the current and former employees of other organizations participating in the Pension Fund, with the result that there is no consistent and reliable basis for allocating the obligation, plan assets and costs to individual participating organizations. UNDP and the Pension Fund, in line with the other participating organizations, are not in a position to identify the Programme's proportionate share of the defined benefit obligation, the plan assets and the costs associated with the plan with sufficient reliability for accounting purposes. Hence, UNDP has treated this plan as if it were a defined contribution plan, in line with the requirements set out in IPSAS 25, Employee benefits. UNDP contributions to the Fund during the financial period are recognized as expenses in the statement of financial performance.

4.42. The Regulations of the Pension Fund state that its Board shall have an actuarial valuation made of the Fund at least once every three years by the consulting actuary. The practice of the Board has been to carry out an actuarial valuation every two years using the open group aggregate method. The primary purpose of the actuarial valuation is to determine whether the current and estimated future assets of the Fund will be sufficient to meet its liabilities.

4.43. The Board of Auditors carries out an annual audit of the Pension Fund and reports to the Fund's Board on the audit every year. The Pension Fund publishes quarterly reports on its investments, which can be viewed by visiting the Fund's website (www.unjspf.org).

Defined benefit plans

4.44. The defined benefit plans of UNDP include after-service health insurance and certain end-of-service entitlements. The obligation of UNDP in respect of defined benefit plans is calculated separately for each plan by estimating the amount of future benefit that employees have earned in return for their service in the current and prior periods. That obligation is discounted to determine its present value and stated at the end of the reporting year less the fair value of plan assets, together with adjustments for unrecognized past service costs. The calculation is performed annually by a qualified independent actuary using the projected unit credit method.

4.45. The discount rate is the yield at the reporting date on high-quality credit rated corporate bonds that have maturity dates approximating the terms of the payment obligations. Actuarial gains and losses arising from experience adjustments and changes in actuarial assumptions are recognized directly in net assets/equity in the year in which they arise. All other changes in the liability for those obligations are recognized as surplus or deficit in the statement of financial performance in the year in which they arise.

Other long-term employee benefits

4.46. Other long-term employee benefit obligations are benefits, or portions of benefits, that are not due to be settled within 12 months after the end of the year in which employees provide the related service. Those benefits include the non-current portions of home leave and compensation for death and injury attributable to performance of duties. These are recognized as non-current liabilities and are measured at the present value of the estimated future cash flows if the payments and the impact of discounting are considered to be material. Actuarial gains and losses are reported in the statement of changes in net assets/equity.

Termination benefits

4.47. Termination benefits are recognized as an expense only when UNDP is demonstrably committed, without realistic possibility of withdrawal, to a formal detailed plan to either terminate the employment of a staff member before the normal retirement date or to provide termination benefits as a result of an offer made in order to encourage voluntary redundancy. Termination benefits settled within 12 months are reported at the amount expected to be paid. Where termination benefits fall due more than 12 months after the reporting date, they are discounted.

Leases

Operating lease

4.48. Leases are classified as operating leases where UNDP is the lessee, and the lessor retains a significant portion of the risks and rewards inherent to ownership. Payments under operating leases, net of incentives received from the lessor, are recognized on a straight line basis in the statement of financial performance over the lease term.

Finance lease

4.49. Leases of tangible assets, where UNDP has substantially all the risks and rewards of ownership, are classified as finance leases. Initial recognition of a finance lease results in an asset and liability being recognized at the lower of the fair value of the leased property and the present value of the minimum lease payments. Subsequent to initial recognition, leased assets are depreciated over the shorter of the lease term and their useful lives in accordance with the accounting policies for property, plant and equipment. Each finance lease payment is allocated between the lease liability and finance charges. The interest portion of the finance lease obligations is recognized as an expense in the statement of financial performance over the term of the lease to produce a constant periodic rate of interest on the remaining balance of the liability for each year.

Right-to-use arrangements

4.50. Where UNDP has signed an agreement for the right-to-use assets with legal title/ownership of the assets, for example through donated use granted to UNDP at no cost, the transaction is a non-exchange transaction. In this case, an asset and revenue is recognized at the point the agreement is entered into. Recognition of an asset is contingent upon satisfying criteria for recognition of an asset. Valuation of the asset will be the fair value of the resource for which the right to use was acquired at the date of acquisition. The asset is depreciated over the shorter of the asset's useful life and the right-to-use term. Without legal title/ownership, an expense is recognized. Revenue is also recognized at the same amount as the asset/expense, except to the extent that a liability is also recognized.

Revenue recognition

Contributions

4.51. Voluntary contributions are non-exchange transactions which are recognized as revenue when contribution agreements become enforceable, or in some instances when cash is received in accordance with the Financial Regulations and Rules of UNDP. Depending on the agreements, enforceability occurs upon signature alone, signature and receipt of deposit, when conditions, if any, in contribution agreements are met, or when funds are to be transferred to UNDP and intended to be utilized. Revenue is shown net of returns of unused funds to donors and impairment of receivables.

4.52. Governments make pledges for voluntary contributions towards regular resources, although in some cases the pledged funds are not paid to UNDP. As the inflow of funds is probable but not certain, UNDP may disclose these amounts as contingent assets.

4.53. In-kind contributions of goods provided are recognized as assets and revenue once it is probable that future economic benefits or service potential will flow to UNDP and the fair value of those assets can be measured reliably. In-kind contributions recognize revenue from right-to-use arrangements at the fair value of the asset reported. UNDP does not recognize or disclose contributions of services in kind as an asset and revenue as permitted by IPSAS.

Revenue from exchange transactions

4.54. Exchange transactions are those in which UNDP sells goods or provides services. Revenue comprises the fair value of consideration received or receivable for the sale of goods and services. Revenue is shown net of returns and discounts. Revenue is recognized when it can be reliably measured, when the inflow of future economic benefits is probable and when specific criteria have been met. For example:

- Cost-recovery revenue from work performed, such as procurement and payment services by UNDP on behalf of United Nations entities, is recognized when services are performed;
- Revenue from sales of human development reports is recognized when the sale takes place;
- Revenue from commissions and fees for procurement, training, administrative, custodial and other services rendered to governments, United Nations entities and other partners is recognized when the service is performed and/or training takes place.

Expense recognition

4.55. Expenses are recognized when goods and/or services are delivered and/or rendered and accepted by UNDP or as specified below.

4.56. For direct implementation by UNDP and full country office support to national government implementation, expenses are recognized when goods, i.e., non-capital or services, have been received by UNDP.

4.57. For national implementation or NGO implementation, expenses are recognized when funds are disbursed by executing entities or implementing partners and reported to UNDP.

4.58. Advances transferred to executing entities and/or implementing partners are recognized as expenses when goods are delivered or services rendered by the executing entities and/or implementing partners and confirmed by receipt by UNDP of certified expense reports as applicable, that is, financial reports, Funding Authorization and Certificate of Expenditure forms or project delivery reports. Once these expense reports are received, UNDP recognizes expenses in its statement of financial performance. Data may be obtained from the audited statements of executing entities and/or implementing partners or, when such statements are not available at the reporting year end, from the entities' statements as submitted for audit and/or from unaudited statements.

Commitments, provisions and contingencies

Commitments

4.59. Commitments are future expenses and liabilities to be incurred on contracts entered into at the reporting date for which UNDP has minimal discretion, if any, to avoid in the ordinary course of operations. Commitments relating to employment contracts are excluded. Commitments include:

- Capital commitments: aggregate amount of capital expenses contracted for but not recognized as paid or provided for at year end;
- Contracts for the supply of goods or services which UNDP expects to be delivered in the ordinary course of operations;
- Non-cancellable minimum lease payments;
- Other non-cancellable commitments.

Provisions

4.60. A provision is recognized if, as a result of a past event, UNDP has a present legal or constructive obligation that can be estimated reliably and it is probable that an outflow of economic benefits will be required to settle the obligation. Provisions are measured at the present value of the expenses expected to be required to settle the obligation. The increase in a provision due to the passage of time is recognized as a finance cost.

Contingencies

Contingent assets

4.61. A contingent asset is disclosed when an inflow of economic benefits or service potential is probable. If it has become virtually certain that an asset is no longer contingent and that its value can be measured reliably, the asset and the related revenue are recognized in the year in which the change occurs.

Contingent liabilities

4.62. A contingent liability is disclosed unless the possibility that it will be realized is remote. If it becomes probable that a contingent liability will be realized, a provision is recognized in the year in which the change of probability occurs.

Note 5
Change in accounting policy

5.1. In 2017, UNDP changed its accounting policy for workers' compensation. UNDP now recognizes the expected cost of workers' compensation claims as determined by independent actuaries. Previously, UNDP recognized workers' compensation costs on a pay-as-you-go basis by satisfying the liability charged to UNDP on an annual basis by the United Nations. In accordance with IPSAS, a prior-period adjustment in the amount of $16.457 million was recorded and the comparative figures at the individual line item level have been retroactively restated. The following table details the impact of the change in comparative figures as a result of this change in accounting policy:

(Thousands of United States dollars)

	31 December 2016 (audited)	*Restatement*	*31 December 2016 (restated)*
Statement of financial position note extract			
Employee benefits	214 507	1 040	215 547
Total current liabilities	**1 063 727**	**1 040**	**1 064 767**
Employee benefits	1 105 488	15 417	1 120 905
Total non-current liabilities	**1 165 704**	**15 417**	**1 181 121**
Total liabilities	**2 229 431**	**16 457**	**2 245 888**
Accumulated surpluses	4 380 724	(16 457)	4 364 267
Total net assets/equity	**4 705 851**	**(16 457)**	**4 689 394**
Total liabilities and net assets/equity	**6 935 282**	–	**6 935 282**

Reclassification of comparatives

5.2. To improve presentation and comparability in the 2016 comparatives, $41.983 million was reclassified from contractual services expense to grants expense. There was no change in 2016 total expenses. The statement of financial performance, note 6, "Segment reporting: statement of financial performance" and note 30, "Expenses" were adjusted to reflect this reclassification of comparative figures. The following table outlines the changes:

(Thousands of United States dollars)

	31 December 2016 (audited)	*Reclassification*	*31 December 2016 (reclassified)*
Expense note extract			
Contractual services			
Contractual services with companies	685 961	(41 983)	643 978
Total contractual services	**1 878 893**	**(41 983)**	**1 836 910**
Grants and other transfers			
Grants	196 148	41 983	238 131
Total grants and other transfers	**203 432**	**41 983**	**245 415**
Total expenses	**4 659 526**	-	**4 659 526**

Note 6
Segment reporting

6.1. For purposes of evaluating its past performance in achieving its objectives and for making decisions about the future allocation of resources, UNDP classifies all its activities into four segments: regular resources; cost-sharing; trust funds; and reimbursable support services and miscellaneous activities.

Regular resources

6.2. Regular resources are all resources of UNDP that are commingled and untied/unearmarked. These include voluntary contributions, contributions from other governmental, intergovernmental or non-governmental sources and related interest earnings and miscellaneous revenue.

Cost-sharing

6.3. Cost-sharing is a co-financing funding modality under which contributions can be received for specific UNDP programme activities, in line with UNDP policies, aims and activities. This modality is used for the direct funding of a specific project, group of projects or part of a country programme. Use of donor contributions is normally limited to the duration of a particular project. Cost-sharing has a decentralized signatory authority, and agreements are signed at the country office level.

Trust funds

6.4. Trust funds are a co-financing funding modality established as a separate accounting entity under which UNDP receives contributions to finance UNDP programme activities specified by the contributor. Separate accounting records are kept for, and financial reporting is at the level of, each individual trust fund. Trust funds are required to be reported separately to the Executive Board. Trust funds have a centralized signatory authority and agreements must be authorized by the Associate Administrator at the headquarters level. There are terms of reference governing each trust fund and each is assigned a trust fund manager.

Reimbursable support services and miscellaneous activities

6.5. Reimbursable support services and miscellaneous activities are the resources of UNDP, other than regular resources, cost-sharing and trust funds. Such funds are received for the provision of management and other support services to third parties. Reimbursable support services and miscellaneous activities comprise the following activities: management service agreements; the Junior Professional Officers programme; reimbursable support services; the United Nations Volunteers programme; the reserve for field accommodation; programme support to resident coordinators; the disaster mitigation programme; and extrabudgetary support for special purposes.

6.6. In order to attribute assets to the appropriate segment, UNDP has allocated cash and investments based on the inter-fund balances among the four segments.

Segment reporting: statement of financial position as at 31 December 2017

(Thousands of United States dollars)

	Regular resources		Cost-sharing		Trust funds		Reimbursable support services and miscellaneous activities		Total UNDP	
	31 December 2017	*31 December 2016 (restated)*	*31 December 2017*	*31 December 2016*	*31 December 2017*	*31 December 2016*	*31 December 2017*	*31 December 2016 (restated)*	*31 December 2017*	*31 December 2016 (restated)*
Assets										
Current assets										
Cash and cash equivalents	173 532	195 648	389 937	341 321	151 776	148 035	122 094	109 403	837 339	794 407
Cash and cash equivalents: funds held in trust	208 597	123 044	–	–	–	–	–	–	208 597	123 044
Investments	633 636	738 906	1 196 445	1 416 362	465 597	615 055	374 932	451 929	2 670 610	3 222 252
Investments: funds held in trust	264 707	241 914	–	–	–	–	–	–	264 707	241 914
Receivables: non-exchange transactions	–	–	127 513	121 083	2 588	215	6 620	2 787	136 721	124 085
Receivables: exchange transactions	75 369	41 790	1 310	1 276	302	407	603	3 570	77 584	47 043
Advances issued	23 125	22 974	120 369	144 296	14 938	19 325	2 291	15 295	160 723	201 890
Loans to governments	–	–	–	–	–	–	507	590	507	590
Inventories	213	474	12 560	6 016	5	189	874	885	13 652	7 564
Other current assets	621	612	19	301	45	45	4	210	689	1 168
Total current assets	**1 379 800**	**1 365 362**	**1 848 153**	**2 030 655**	**635 251**	**783 271**	**507 925**	**584 669**	**4 371 129**	**4 763 957**
Non-current assets										
Investments	625 235	425 696	1 196 445	865 555	472 422	382 589	374 932	276 178	2 669 034	1 950 018
Investments: funds held in trust	61 360	52 192	–	–	–	–	–	–	61 360	52 192
Loans to governments	–	–	–	–	–	–	4 564	6 013	4 564	6 013
Property, plant and equipment	42 751	44 237	20 000	22 175	5 006	4 811	88 733	84 242	156 490	155 465
Intangible assets	228	56	–	–	6	9	9 270	7 564	9 504	7 629
Other non-current assets	2	1	7	7	–	–	17	–	26	8
Total non-current assets	**729 576**	**522 182**	**1 216 452**	**887 737**	**477 434**	**387 409**	**477 516**	**373 997**	**2 900 978**	**2 171 325**
Total assets	**2 109 376**	**1 887 544**	**3 064 605**	**2 918 392**	**1 112 685**	**1 170 680**	**985 441**	**958 666**	**7 272 107**	**6 935 282**

Segment reporting: statement of financial position as at 31 December 2017 (continued)

(Thousands of United States dollars)

	Regular resources		Cost-sharing		Trust funds		Reimbursable support services and miscellaneous activities		Total UNDP	
	31 December 2017	*31 December 2016 (restated)*	*31 December 2017*	*31 December 2016*	*31 December 2017*	*31 December 2016*	*31 December 2017*	*31 December 2016 (restated)*	*31 December 2017*	*31 December 2016 (restated)*
Liabilities										
Current										
Accounts payable and accrued liabilities	78 977	98 427	99 124	49 174	7 905	15 763	27 819	29 474	213 825	192 838
Advances payable	840	1 363	20 268	12 260	9 808	7 152	533	498	31 449	21 273
Funds received in advance and deferred revenue	116	101	23 276	87 707	–	1 000	8 228	11 815	31 620	100 623
Funds held on behalf of donors	17 454	19 577	468	616	79	79	102	191	18 103	20 463
Payables: funds held in trust	639 293	506 202	–	–	–	–	–	–	639 293	506 202
Employee benefits	194 784	199 520	45	49	6	10	19 650	15 968	214 485	215 547
Other current liabilities	8 132	4 340	146	169	28	39	1 567	3 126	9 873	7 674
Provision for restructuring	–	–	–	–	–	–	–	147	–	147
Total current liabilities	**939 596**	**829 530**	**143 327**	**149 975**	**17 826**	**24 043**	**57 899**	**61 219**	**1 158 648**	**1 064 767**
Non-current liabilities										
Payables: funds held in trust	61 360	52 192	–	–	–	–	–	–	61 360	52 192
Funds received in advance and deferred revenue	–	–	–	–	–	–	7 471	7 252	7 471	7 252
Employee benefits	921 198	749 383	–	–	–	–	481 107	371 522	1 402 305	1 120 905
Other non-current liabilities	722	761	–	–	–	–	–	11	722	772
Total non-current liabilities	**983 280**	**802 336**	**–**	**–**	**–**	**–**	**488 578**	**378 785**	**1 471 858**	**1 181 121**
Total liabilities	**1 922 876**	**1 631 866**	**143 327**	**149 975**	**17 826**	**24 043**	**546 477**	**440 004**	**2 630 506**	**2 245 888**
Net assets/equity										
Reserves	160 159	181 158	–	–	3 000	3 000	139 001	140 969	302 160	325 127
Accumulated surpluses/ (deficits)	26 341	74 520	2 921 278	2 768 417	1 091 859	1 143 637	299 963	377 693	4 339 441	4 364 267
Total net assets/equity	**186 500**	**255 678**	**2 921 278**	**2 768 417**	**1 094 859**	**1 146 637**	**438 964**	**518 662**	**4 641 601**	**4 689 394**
Total liabilities and net assets/equity	**2 109 376**	**1 887 544**	**3 064 605**	**2 918 392**	**1 112 685**	**1 170 680**	**985 441**	**958 666**	**7 272 107**	**6 935 282**

Segment reporting: statement of financial performance for the year ended 31 December 2017

(Thousands of United States dollars)

	Regular resources		*Cost-sharing*		*Trust funds*		*Reimbursable support services and miscellaneous activities*		*Elimination*[a]		*Total UNDP*	
	2017	*2016*	*2017*	*2016 (reclassified)*	*2017*	*2016*	*2017*	*2016*	*2017*	*2016*	*2017*	*2016 (reclassified)*
Revenue												
Voluntary contributions	647 298	663 565	3 277 815	3 075 146	814 196	957 468	152 790	88 942	–	–	4 892 099	4 785 121
Revenue: exchange transactions	102	103	1 123	856	4	53	174 170	195 495	–	–	175 399	196 507
Investment revenue	36 708	15 813	31 924	21 730	11 916	9 458	7 854	5 924	–	–	88 402	52 925
Other revenue	39 204	30 043	3 989	3 339	2 028	2 471	278 538	235 053	(243 235)	(202 886)	80 524	68 020
Total revenue	**723 312**	**709 524**	**3 314 851**	**3 101 071**	**828 144**	**969 450**	**613 352**	**525 414**	**(243 235)**	**(202 886)**	**5 236 424**	**5 102 573**
Expenses												
Contractual services	131 969	141 983	1 241 592	1 058 873	582 450	554 623	74 216	81 431	–	–	2 030 227	1 836 910
Staff costs	315 790	316 309	170 929	139 041	46 356	61 000	349 523	375 629	–	–	882 598	891 979
Supplies and consumables used	42 074	37 944	868 039	628 564	55 219	59 629	28 864	41 533	–	–	994 196	767 670
General operating expenses	167 432	169 057	662 127	591 037	146 331	133 553	128 753	145 172	(243 235)	(202 886)	861 408	835 933
Grants and other transfers	9 035	10 661	192 470	191 027	45 979	39 720	1 972	4 007	–	–	249 456	245 415
Other expenses	21 561	28 088	23 937	20 043	2 673	5 003	6 383	4 409	–	–	54 554	57 543
Depreciation and amortization	4 547	4 904	2 798	3 281	687	759	10 636	9 160	–	–	18 668	18 104
Finance costs	2 888	2 799	98	2 150	227	178	455	845	–	–	3 668	5 972
Total expenses	**695 296**	**711 745**	**3 161 990**	**2 634 016**	**879 922**	**854 465**	**600 802**	**662 186**	**(243 235)**	**(202 886)**	**5 094 775**	**4 659 526**
Surplus/(deficit) for the year	**28 016**	**(2 221)**	**152 861**	**467 055**	**(51 778)**	**114 985**	**12 550**	**(136 772)**	–	–	**141 649**	**443 047**

[a] This adjustment is required to remove the effect of internal UNDP cost recovery.

Note 7
Comparison to budget

7.1. The budget and the accounting basis are different. Statement V, statement of comparison of budget and actual amounts (regular resources), is prepared on the budget basis, that is, a modified cash basis, and statement II, statement of financial performance, is prepared on an accounting basis, that is, an accrual basis.

7.2. The presentation of activities and associated budget expenditures in statement V reflects the cost classification categories approved by the Executive Board of UNDP, that is: (a) development activities: (i) programme; and (ii) development effectiveness; (b) United Nations development coordination activities; (c) management activities: (i) recurring; and (ii) non-recurring; and (d) special purpose activities: (i) capital investments; and (ii) non-UNDP operations administered by UNDP. It is noted that statement II reflects expenses by nature. Also included is a line from a budget for additional resources for security measures, in line with Executive Board decision 2013/28.

7.3. For these reasons, the total actual regular resources budget expenditure differs from total financial accounting expenses.

7.4. Approved budgets are those that permit budget expenditures to be incurred and are approved by the Executive Board of UNDP. For IPSAS reporting purposes, the approved budgets of UNDP are the institutional budget financed from regular resources and the portion of the resource plan relating to development activities to be financed from regular resources. As other resources of UNDP are a forward estimate and projection based on assumptions about future events and are not formally approved by the Executive Board, the other resources are not presented in statement V. The Executive Board has approved a four-year integrated budget covering 2014–2017, with estimates provided for the 2014–2015 and 2016–2017 periods. While the Programme's approved budgets are for a four-year period, UNDP allocates those budgets into annual amounts, the total of which comprises the four-year approved budget, in order to provide the budget-to-actual comparison of the annual financial statements.

7.5. There are no material differences between the original approved budget and the final approved budget, as the original approved budget equates to the final approved budget. Budget utilization levels in 2017 were driven by a combination of the following factors: (a) approved budget levels; (b) overall cash flow and liquidity requirements; and (c) requirements and implementation of the Programme's strategic plan 2014–2017.

Accordingly, actual amounts/utilization in 2017 against budget levels is as follows:

- Development activities, actual utilization of $414.96 million, representing 49.2 per cent of the annualized approved budget of $844.0 million;
- United Nations development coordination activities, actual utilization of $91.98 million, representing 96.0 per cent of the annualized approved budget of $95.85 million;
- Management activities, actual utilization of $92.06 million, representing 63.0 per cent of the annualized approved budget of $146.03 million;
- Special purpose activities, actual utilization of $10.21 million, representing 51.3 per cent of the annualized approved budget of $19.92 million.

Actual amounts/utilization against budget levels for the 2016–2017 biennium is as follows:

- Development activities, actual utilization of $857.01 million, representing 64.1 per cent of the annualized approved budget of $1.336 billion;
- United Nations development coordination activities, actual utilization of $184.53 million, representing 97.9 per cent of the annualized approved budget of $188.57 million;
- Management activities, actual utilization of $169.63 million, representing 59.2 per cent of the annualized approved budget of $286.33 million;
- Special purpose activities, actual utilization of $19.32 million, representing 49.5 per cent of the annualized approved budget of $39.05 million.

7.6. Statement V (a–b) shows the comparison between the final approved budget and actual amounts calculated on the same basis as the corresponding budget. Explanations of material differences between the final approved budget and the actual amounts are presented below.

7.7. The Executive Board approved a 2014–2017 integrated budget based on a core resource contribution scenario of $3.6 billion that did not materialize (actual contributions received in this period were $2.7 billion), noting the reduced level of voluntary contributions towards regular resources and the negative impact on non-United States dollar contributions owing to the stronger United States dollar. This impacted the entire 2014–2017 planning period, and, during 2017, UNDP revised the annual spending limits to coincide with resource availability. This resulted in lower overall budget expenditure as evident in statement V (a–b). Therefore, overall, UNDP utilized only 55 per cent of its approved budgeted amount in 2017 (and in 2016–2017, only 67 per cent of the 2016–2017 approved budgeted amount).

7.8. Actual net cash flows from operating activities, investing activities and financing activities in statement V as presented on a comparable basis reconcile to the amounts presented in statement IV, cash flow statement, as follows:

(Thousands of United States dollars)

	Operating	*Investing*	*Financing*	*Total*
Total actual budget expenditure on comparable basis as presented in statement V	**(604 441)**	**(4 767)**	–	**(609 208)**
Basis differences	(3 615)	(276)	–	(3 891)
Entity differences	839 539	(108 168)	(43)	731 328
Increase/(decrease) in cash and cash equivalents from statement IV	**231 483**	**(113 211)**	**(43)**	**118 229**

7.9. Basis differences include differences between the budget basis (modified cash) and accounting basis (accrual), which result primarily from purchase orders that have been issued but not delivered. Those are included in the budget basis but not in the accounting basis as delivery of goods and the rendering of services has not yet occurred for those undelivered purchase orders.

7.10. Entity differences between statement V and statement IV include other resources, that is, amounts for cost-sharing, trust funds and reimbursable support services and miscellaneous activities, which are incorporated in statement IV but not in statement V.

7.11. Timing differences do not exist, as the budget period annualized is the same as the financial statement reporting year.

Note 8
Cash and cash equivalents

(Thousands of United States dollars)

	31 December 2017	*31 December 2016*
United Nations Development Programme		
Cash held in bank accounts	567 019	326 306
Cash held by external investment manager	15 853	5 340
Petty cash and project cash	424	507
Money market funds	77 691	363 027
Money market instruments	150 945	98 995
Bonds	51 081	25 995
Impairment	(25 674)	(25 763)
Total cash and cash equivalents	**837 339**	**794 407**
Held in trust for multi-donor trust funds		
Cash held in bank accounts	1 720	12 379
Money market funds	131 877	80 715
Money market instruments	75 000	25 000
Bonds	–	4 950
Total funds held in trust	**208 597**	**123 044**
Total cash and cash equivalents and funds held in trust	**1 045 936**	**917 451**

8.1. Cash held in bank accounts includes cash held by UNDP at headquarters and country offices in various currencies. National currencies that have restricted utility for UNDP programme costs are regularly reviewed for impairment.

8.2. The decrease in impairment of $0.089 million recognized in the statement of financial performance (refer to note 29, "Other revenue") relates to the valuation of certain non-convertible currency held by UNDP.

8.3. The exposure of UNDP to credit, market and currency risks and its risk management activities related to its financial assets is disclosed in note 31.

Note 9
Investments

9.1
Total investments

(Thousands of United States dollars)

	31 December 2017	*31 December 2016*
Current investments		
Investments — managed by UNDP	2 669 372	3 222 252
Investments — managed by external investment manager	1 238	–
Total current investments	**2 670 610**	**3 222 252**

	31 December 2017	*31 December 2016*
Non-current investments		
Investments — managed by UNDP	2 191 787	1 763 840
Investments — managed by external investment manager	477 247	186 178
Total non-current investments	**2 669 034**	**1 950 018**
Total investments	**5 339 644**	**5 172 270**

Investments — funds held in trust

(Thousands of United States dollars)

	31 December 2017	*31 December 2016*
Current investments		
Investments — funds held in trust	264 707	241 914
Total current investments — funds held in trust	**264 707**	**241 914**
Non-current investments		
Investments — funds held in trust	61 360	52 192
Total non-current investments — funds held in trust	**61 360**	**52 192**
Total investments — funds held in trust	**326 067**	**294 106**

UNDP investments include held-to-maturity and available-for-sale financial assets that are managed by UNDP and available-for-sale financial assets that are managed by an external investment manager. Investments — funds held in trust represent funds provided to UNDP by donors to be held on their behalf for future disbursement to organizations of the United Nations system and to national Governments.

9.2

Total investments managed by UNDP — held-to-maturity and available-for-sale financial assets

(Thousands of United States dollars)

	1 January 2017	*Purchases*	*Maturities*	*Amortization*	*Unrealized gains (losses)*	*Fair value increase (decrease)*	*Reclassification non-current to current*	*31 December 2017*
Investments								
Current investments								
Money market instruments	856 541	2 114 754	(2 313 282)	2 130	(39)	–	99 890	759 994
Bonds	2 365 744	745 075	(2 692 798)	(6 125)	–	–	1 497 637	1 909 533
Bonds: fair value adjustments	(33)	–	–	–	–	33	(155)	(155)
Total current investments	**3 222 252**	**2 859 829**	**(5 006 080)**	**(3 995)**	**(39)**	**33**	**1 597 372**	**2 669 372**

	1 January 2017	*Purchases*	*Maturities*	*Amortization*	*Unrealized gains (losses)*	*Fair value increase (decrease)*	*Reclassification non-current to current*	*31 December 2017*
Non-current investments								
Money market instruments	–	98 695	–	1 195	–	–	(99 890)	–
Bonds	1 763 931	1 966 076	(39 966)	(617)	–	–	(1 497 637)	2 191 787
Bonds: fair value adjustments	(91)	–	–	–	–	(64)	155	–
Total non-current investments	**1 763 840**	**2 064 771**	**(39 966)**	**578**	**–**	**(64)**	**(1 597 372)**	**2 191 787**
Total investments held to maturity and available for sale	**4 986 092**	**4 924 600**	**(5 046 046)**	**(3 417)**	**(39)**	**(31)**	**–**	**4 861 159**

As at 31 December 2017, UNDP did not have any impairment on investments.

The exposure to UNDP from credit, market and currency risks and risk management activities related to investments is disclosed in note 31.

9.2 (a)

Total investments managed by UNDP - held-to-maturity financial assets

(Thousands of United States dollars)

	1 January 2017	*Purchases*	*Maturities*	*Amortization*	*Unrealized gains (losses)*	*Reclassification non-current to current*	*31 December 2017*
Investments held to maturity							
Current investments							
Money market instruments	845 191	2 112 354	(2 299 532)	2 130	(39)	99 890	759 994
Bonds	2 172 056	745 075	(2 499 253)	(5 981)	–	1 372 567	1 784 464
Total current investments	**3 017 247**	**2 857 429**	**(4 798 785)**	**(3 851)**	**(39)**	**1 472 457**	**2 544 458**
Non-current investments							
Money market instruments	–	98 695	–	1 195	–	(99 890)	–
Bonds	1 598 616	1 966 076	–	(338)	–	(1 372 567)	2 191 787
Total non-current investments	**1 598 616**	**2 064 771**	**–**	**857**	**–**	**(1 472 457)**	**2 191 787**
Total investments held to maturity	**4 615 863**	**4 922 200**	**(4 798 785)**	**(2 994)**	**(39)**	**–**	**4 736 245**

As at 31 December 2017, UNDP did not have any impairment on investments.

The exposure to UNDP from credit, market and currency risks and risk management activities related to investments is disclosed in note 31.

9.2 (b)
Total investments managed by UNDP — available-for-sale financial assets

(Thousands of United States dollars)

	1 January 2017	*Purchases*	*Maturities*	*Amortization*	*Fair value increase/ (decrease)*	*Reclassification non-current to current*	*31 December 2017*
Investments available for sale							
Current investments							
Money market instruments	11 350	2 400	(13 750)	–	–	–	–
Bonds	193 688	–	(193 545)	(144)	–	125 070	125 069
Bonds: fair value adjustments	(33)	–	–	–	33	(155)	(155)
Total current investments	**205 005**	**2 400**	**(207 295)**	**(144)**	**33**	**124 915**	**124 914**
Non-current investments							
Bonds	165 315	–	(39 966)	(279)	–	(125 070)	–
Bonds: fair value adjustments	(91)	–	–	–	(64)	155	–
Total non-current investments	**165 224**	–	**(39 966)**	**(279)**	**(64)**	**(124 915)**	–
Total investments managed by UNDP available for sale	**370 229**	**2 400**	**(247 261)**	**(423)**	**(31)**	–	**124 914**

The available-for-sale portfolio represents investments managed by UNDP for after-service health insurance. In addition to the above investments, $12 million (2016: $1.4 million) in after-service health insurance investments has been classified under cash and cash equivalents.

As at 31 December 2017, UNDP did not have any impairment on investments.

The exposure to UNDP from credit, market and currency risks and risk management activities related to investments is disclosed in note 31.

9.3
Investments managed by external investment manager — available-for-sale financial assets

(Thousands of United States dollars)

	31 December 2017	*31 December 2016*
Investments available for sale		
Current investments		
Bonds	1 239	–
Bonds: fair value adjustments	(1)	–
Total non-current investments	**1 238**	–

	31 December 2017	31 December 2016
Non-current investments		
Equities	270 723	112 197
Equities: fair value adjustments	32 638	1 969
Bonds	172 564	74 321
Bonds: fair value adjustments	1 322	(2 309)
Total non-current investments	**477 247**	**186 178**
Total investments managed by external investment manager available for sale	**478 485**	**186 178**

The available-for-sale portfolio represents investments managed by an external investment manager for after-service health insurance. In addition to the above investments, $15.9 million in after-service health insurance investments has been classified under cash and cash equivalents.

Total after-service health insurance investments, including cash and cash equivalents, amounted to $631.3 million (2016: $563.1 million).

As at 31 December 2017, UNDP did not have any impairment on investments.

The exposure to UNDP from credit, market and currency risks and risk management activities related to investments is disclosed in note 31.

9.4
Investments of funds held in trust

(Thousands of United States dollars)

	1 January 2017	Purchases	Maturities	Amortization	Reclassification non-current to current	31 December 2017
Investments of funds held in trust						
Current investments						
Money market instruments	40 001	195 025	(165 000)	(16)	–	70 010
Bonds	201 913	156 421	(247 977)	(609)	84 949	194 697
Total current investments	**241 914**	**351 446**	**(412 977)**	**(625)**	**84 949**	**264 707**
Non-current investments						
Bonds	52 192	94 279	–	(162)	(84 949)	61 360
Total non-current investments	**52 192**	**94 279**	–	**(162)**	**(84 949)**	**61 360**
Total investments of funds held in trust	**294 106**	**445 725**	**(412 977)**	**(787)**	–	**326 067**

As at 31 December 2017, UNDP did not have any impairment on investments of funds held in trust.

Note 10
Receivables: non-exchange transactions

(Thousands of United States dollars)

	31 December 2017	31 December 2016
Contributions receivable	136 721	124 085
Total receivables: non-exchange transactions	**136 721**	**124 085**

Ageing of receivables: non-exchange transactions

(Thousands of United States dollars)

	31 December 2017	*31 December 2016*
Less than 6 months	136 269	119 234
Over 6 months	452	4 851
Total receivables: non-exchange transactions	**136 721**	**124 085**

The exposure to UNDP from credit and currency risks related to receivables is disclosed in note 31.

As at 31 December 2017, UNDP did not have any impairment on receivables: non-exchange transactions.

Note 11
Receivables: exchange transactions

(Thousands of United States dollars)

	31 December 2017	*31 December 2016*
Receivables from United Nations entities	60	51
Investment receivables	55 731	23 524
Receivables from third parties	21 685	22 899
Receivables from staff	903	662
Derivative assets	–	295
Total receivables: exchange transactions, gross	**78 379**	**47 431**
Impairment[a]	(795)	(388)
Total receivables: exchange transactions, net	**77 584**	**47 043**

Ageing of receivables: exchange transactions

(Thousands of United States dollars)

	31 December 2017	*31 December 2016*
Less than 6 months	71 372	42 344
Over 6 months	7 007	5 087
Total receivables: exchange transactions, gross	**78 379**	**47 431**

Receivables: exchange transactions from United Nations entities

(Thousands of United States dollars)

	31 December 2017	*31 December 2016*
Receivables from other entities for reserve for field accommodation	60	51
Total receivables — exchange transactions from United Nations entities	**60**	**51**

The exposure to UNDP from credit and currency risks related to receivables is disclosed in note 31.

[a] The net increase in impairment of $0.407 million represents an increase of $0.258 million that was reclassified from advances issued and an increase of $0.149 million recognized in

the statement of financial performance (refer to note 29).

Note 12
Advances issued

(Thousands of United States dollars)

	31 December 2017	*31 December 2016*
Operating funds issued to governments and non-governmental organizations not yet implemented	78 667	90 280
Operating funds issued to United Nations entities not yet implemented	31 116	47 915
Advances issued: non-exchange transactions	**109 783**	**138 195**
Prepayments	31 933	46 754
Advances to staff	20 467	18 990
Advances issued: exchange transactions	**52 400**	**65 744**
Total advances issued, gross	**162 183**	**203 939**
Impairment[a]	(1 460)	(2 049)
Total advances issued, net	**160 723**	**201 890**

Ageing of advances: non-exchange and exchange transactions

(Thousands of United States dollars)

	31 December 2017	*31 December 2016*
Less than 6 months	152 700	165 608
Over 6 months	9 483	38 331
Advances issued: non-exchange and exchange transactions, gross	**162 183**	**203 939**

[a] The net decrease in impairment of $0.589 million represents $0.258 million that was reclassified to receivables: exchange transactions and a decrease of $0.331 million recognized in the statement of financial performance (refer to note 29).

Note 13
Inventories

(Thousands of United States dollars)

	31 December 2017	*31 December 2016*
Medical supplies and equipment	11 428	5 359
Information technology supplies and consumables	76	211
Office supplies	70	–
Fuel	97	34
Publications	32	70
Human development reports	48	72
Electoral supplies and equipment	–	153
Crisis supplies and equipment	12	16
Other project-related inventories	1 889	1 649

	31 December 2017	*31 December 2016*
Total inventories	**13 652**	**7 564**

Note 14
Other assets

(Thousands of United States dollars)

	31 December 2017	*31 December 2016*
Current		
Dispensary, medical and other receivables	730	1 209
Impairment[a]	(41)	(41)
Total current other assets	**689**	**1 168**
Non-current		
Security deposit and other receivables	26	8
Total non-current other assets	**26**	**8**
Total other assets	**715**	**1 176**

[a] There was no change in impairment in 2017.

Note 15
Loans to governments

(Thousands of United States dollars)

	31 December 2017	*31 December 2016*
Current		
Loans to governments	507	590
Total current loans to governments	**507**	**590**
Non-current		
Loans to governments	4 564	6 013
Total non-current loans to governments	**4 564**	**6 013**
Total loans to governments	**5 071**	**6 603**

15.1. Loans to governments are loans given to national governments to construct office or housing premises for use by UNDP and United Nations entities.

15.2. As at 31 December 2017, loans to governments consisted of loans issued to the Governments of Cabo Verde, the Comoros, Guinea-Bissau and Sao Tome and Principe.

Note 16
Property, plant and equipment

UNDP has two broad categories of property, plant and equipment: project assets and management assets. Project assets, which comprise 23 per cent of property, plant and equipment assets, are utilized in the delivery of UNDP programmes and projects. Management assets, which comprise 77 per cent of property, plant and equipment assets, are used for non-project specific operations at UNDP country offices and headquarters. As at 31 December 2017, UNDP had a gross carrying amount of $11.435 million of fully depreciated property, plant and equipment that is still in use.

Property, plant and equipment

(Thousands of United States dollars)

	Land	*Buildings*	*Furniture and fixtures*	*Communications and information technology equipment*	*Vehicles*	*Heavy machinery and other equipment*	*Leasehold improvements*	***Total***
Balance at 1 January 2017								
Cost	7 175	34 910	7 524	57 757	97 759	13 864	29 563	**248 552**
Accumulated depreciation	–	(4 200)	(4 036)	(28 841)	(47 533)	(4 452)	(4 025)	**(93 087)**
Carrying amount at 1 January 2017	**7 175**	**30 710**	**3 488**	**28 916**	**50 226**	**9 412**	**25 538**	**155 465**
Year ended 31 December 2017								
Additions and adjustments	–	2 494	612	8 063	8 586	2 594	2 253	**24 602**
Disposals — cost	–	(11)	(534)	(6 506)	(11 277)	(1 343)	–	**(19 671)**
Depreciation	–	(1 060)	(351)	(4 849)	(7 033)	(689)	(2 266)	**(16 248)**
Disposals — accumulated depreciation/ depreciation	–	10	220	4 332	7 378	402	–	**12 342**
Recategorization	–	7 370	–	–	–	–	(7 370)	**–**
Carrying amount at 31 December 2017	**7 175**	**39 513**	**3 435**	**29 956**	**47 880**	**10 376**	**18 155**	**156 490**
Balance at 31 December 2017								
Cost	7 175	44 763	7 602	59 314	95 068	15 115	24 446	**253 483**
Accumulated depreciation	–	(5 250)	(4 167)	(29 358)	(47 188)	(4 739)	(6 291)	**(96 993)**
Carrying amount at 31 December 2017	**7 175**	**39 513**	**3 435**	**29 956**	**47 880**	**10 376**	**18 155**	**156 490**

As at 31 December 2017, assets under construction of $1.9 million were included under leasehold improvements.

Note 17
Intangible assets

(Thousands of United States dollars)

	Software internally developed	*Software acquired*	*Trademarks, copyrights, and licences*	*Assets under development*	***Total***
Balance as at 1 January 2017					
Cost	13 484	78	314	563	**14 439**
Accumulated amortization	(6 539)	(75)	(196)	–	**(6 810)**
Carrying amount as at 1 January 2017	**6 945**	**3**	**118**	**563**	**7 629**
Year ended 31 December 2017					
Additions and adjustments	254	19	10	4 069	**4 352**
Disposals	(100)	(25)	(66)	–	**(191)**
Amortization	(2 330)	(5)	(85)	–	**(2 420)**
Adjustments to accumulated amortization/depreciation	50	18	66	–	**134**
Recategorization	832	–	–	(832)	**–**
Carrying amount as at 31 December 2017	**5 651**	**10**	**43**	**3 800**	**9 504**
Balance as at 31 December 2017					
Cost	14 470	72	258	3 800	**18 600**
Accumulated amortization	(8 819)	(62)	(215)	–	**(9 096)**
Carrying amount as at 31 December 2017	**5 651**	**10**	**43**	**3 800**	**9 504**

As at 31 December 2017, UNDP did not have any impairment on intangible assets.

Note 18
Accounts payable and accrued liabilities

(Thousands of United States dollars)

	31 December 2017	*31 December 2016*
Accruals	68 498	40 077
Payables to United Nations entities	40 263	54 058
Payables to third parties	63 106	94 250
Derivative liabilities	1 188	1 409
Payables to staff	4 216	3 044
Investment settlement payable	36 554	–
Total accounts payable and accrued liabilities	**213 825**	**192 838**

Payables to United Nations entities

(Thousands of United States dollars)

	31 December 2017	*31 December 2016*
Payables to United Nations current account	14 720	15 015
World Health Organization	5 313	5 868
United Nations Relief and Works Agency for Palestine Refugees in the Near East	3 528	3 761
Joint United Nations Programme on HIV/AIDS	2 308	3 057
United Nations Capital Development Fund	5 910	10 817
United Nations Entity for Gender Equality and the Empowerment of Women	3 525	6 974
United Nations Population Fund	1 361	1 405
Payables to other United Nations entities	3 598	7 161
Total payables to United Nations entities	**40 263**	**54 058**

Note 19
Advances payable

(Thousands of United States dollars)

	31 December 2017	*31 December 2016*
Operating funds payable to governments and non-governmental organizations	384	206
Operating funds payable to executing entities/ implementing partners	31 065	21 067
Total advances payable	**31 449**	**21 273**

Note 20
(a) Funds received in advance and deferred revenue

(Thousands of United States dollars)

	31 December 2017	*31 December 2016*
Current		
Funds received in advance	24 268	92 969
Deferred revenue: Department of Safety and Security	–	1 266
Deferred revenue: Multi-Partner Trust Fund Office administrative agent fees	7 334	6 370
Deferred revenue: other	18	18
Total current funds received in advance and deferred revenue	**31 620**	**100 623**

	31 December 2017	*31 December 2016*
Non-current		
Deferred revenue: Multi-Partner Trust Fund Office administrative agent fees	7 471	7 252
Total non-current funds received in advance and deferred revenue	**7 471**	**7 252**
Total funds received in advance and deferred revenue	**39 091**	**107 875**

(b) Funds held on behalf of donors

(Thousands of United States dollars)

	31 December 2017	*31 December 2016*
Refunds to donors	18 103	20 463
Total funds held on behalf of donors	**18 103**	**20 463**

Refunds pending to donors comprise unspent funds for completed or terminated projects and, where applicable, interest that has been set aside to be refunded to donors in accordance with contribution agreements and the UNDP Financial Regulations and Rules. The funds will be refunded or reprogrammed upon receipt of instructions from donors.

Note 21
Payables: funds held in trust

(Thousands of United States dollars)

	31 December 2017	*31 December 2016*
Current		
Multi-donor trust funds	469 042	363 215
Clearing accounts with United Nations entities	93 970	96 559
Payable for common services	76 281	46 428
Total current payables: funds held in trust	**639 293**	**506 202**
Non-current		
Multi-donor trust funds	61 360	52 192
Total non-current payables: funds held in trust	**61 360**	**52 192**
Total payables: funds held in trust	**700 653**	**558 394**

21.1. Payables: funds held in trust represent funds provided by donors to UNDP to be held on their behalf for future disbursement to organizations of the United Nations system and to national governments. UNDP manages investments in separate portfolios on behalf of several organizations.

21.2. With regard to multi-donor trust funds, in 2017, UNDP in its role as administrative agent received net cash inflows from donors of $739.023 million and released $629.053 million. The increase in payables: funds held in trust for multi-donor trust funds of $114.995 million also includes $4.808 million of interest and investment income and a net movement of other assets and liabilities of $0.217 million.

Note 22
Employee benefits

(Thousands of United States dollars)

	31 December 2017	*31 December 2016 (restated)*
Current		
Annual leave	68 435	79 462
Medical insurance plan	96 724	90 807
After-service health insurance	29 486	25 574
Repatriation entitlements	9 075	8 129
Home leave	7 472	8 923
Termination benefits	1 773	23
Workers' compensation	959	1 040
Contribution payable to the United Nations Joint Staff Pension Fund	27	11
Death benefits	201	247
Other employee benefits	333	1 331
Total current employee benefit liabilities	**214 485**	**215 547**
Non-current		
After-service health insurance	1 286 921	1 009 287
Repatriation entitlements	96 600	90 784
Workers' compensation	14 501	15 417
Home leave	2 400	3 252
Death benefits	1 883	2 165
Total non-current employee benefit liabilities	**1 402 305**	**1 120 905**
Total employee benefit liabilities	**1 616 790**	**1 336 452**

22.1. The liabilities arising from post-employment benefits are determined by independent actuaries and those employee benefits are established in accordance with the Staff Rules and Staff Regulations of the United Nations.

22.2. As at 31 December 2017, liabilities for after-service health insurance, repatriation entitlements and death benefits were determined by the actuarial valuation conducted as at 31 December 2017.

Defined benefit plans

22.3. UNDP provides its staff and former staff with the following defined benefit plans, which are actuarially valued: after-service health insurance; end-of-service entitlements, such as repatriation entitlement; and other benefits, such as death benefits.

22.4. The movements in the present value of the defined benefit obligation for those plans are:

(Thousands of United States dollars)

	After-service health insurance	*Repatriation*	*Death benefits*	*Workers' compensation*	*Total*
Defined benefit obligation as at 31 December 2016	**1 034 861**	**98 913**	**2 412**	**16 457**	**1 152 643**
Increase of the obligation					
Current service cost	30 994	6 411	103	564	38 072
Interest cost	41 781	3 399	77	138	45 395
Actuarial losses from change in financial assumptions	–	–	–	191	191
Actuarial losses from change in demographic assumptions	136 522	–	–	625	137 147
Actuarial losses due to experience adjustments	118 690	7 892	–	–	126 582
Decrease of the obligation					
Actual benefits paid	(16 645)	(8 423)	(222)	(1 027)	(26 317)
Actuarial (gains) on disbursements	(10 022)	(8)	(34)	–	(10 064)
Actuarial (gains) from change in financial assumptions	(19 774)	(2 438)	(102)	–	(22 314)
Actuarial (gains) from change in demographic assumptions	–	(71)	(7)	–	(78)
Actuarial (gains) due to experience adjustments	–	–	(143)	(1 488)	(1 631)
Recognized liability as at 31 December 2017	**1 316 407**	**105 675**	**2 084**	**15 460**	**1 439 626**

22.5. The value of the defined benefit obligation equals the defined benefit liability that is recognized in the statement of financial position.

22.6. The current service cost and interest cost recognized in the statement of financial performance and the statement of financial position are as follows:

(Thousands of United States dollars)

	After-service health insurance	*Repatriation*	*Death benefits*	*Workers' compensation*	*Total*
Current service cost	30 994	6 411	103	564	38 072
Interest cost	41 781	3 399	77	138	45 395
Total employee benefits expenses recognized	**72 775**	**9 810**	**180**	**702**	**83 467**

22.7. The actuarial gains/(losses) recognized in net assets/equity directly are as follows:

(Thousands of United States dollars)

	After-service health insurance	*Repatriation*	*Death benefits*	*Workers' compensation*	*Total*
Actuarial gains/(losses) from change in assumptions and experience adjustments	(235 438)	(5 383)	252	672	(239 897)
Actuarial gains/(losses) on disbursement	10 022	8	34	–	10 064
Total actuarial gains/(losses) recognized	**(225 416)**	**(5 375)**	**286**	**672**	**(229 833)**

22.8. In 2017, of the net actuarial losses of $229.83 million, the actuarial loss relating to after-service health insurance from a change in actuarial assumptions was $235.44 million.

22.9. The following table provides the amounts for the current and previous four periods of the defined benefit obligation and the experience adjustment arising on the plan liabilities:

(Thousands of United States dollars)

	2017	*2016*	*2015*	*2014*	*2013*
After-service health insurance					
Defined benefits obligation	1 316 407	1 034 861	954 121	1 141 510	858 155
Experience adjustment on plan liabilities	118 690	–	(35 400)	32 804	(5 826)
Repatriation					
Defined benefits obligation	105 675	98 913	97 687	98 939	94 019
Experience adjustment on plan liabilities	7 892	–	1 345	(4 624)	2 445
Death benefits					
Defined benefits obligation	2 084	2 412	2 456	2 855	2 448
Experience adjustment on plan liabilities	(143)	–	(261)	120	(21)
Workers' compensation					
Defined benefits obligation	15 460	16 457	–	–	–
Experience adjustment on plan liabilities	1 488	2 184	–	–	–

22.10. UNDP has invested $631.3 million of the after-service health insurance liability and a 15-year funding strategy has been formulated to fund the gap between the historical liability and the amount funded.

22.11. The next actuarial valuation will be conducted as at 31 December 2018.

Actuarial assumptions

22.12. The last actuarial valuation for after-service health insurance, repatriation and death benefits was completed as at 31 December 2017. The two important assumptions used by the actuary to determine defined-benefit liabilities are the discount rate and, for after-service health insurance, the health-care cost-trend rate. The principal actuarial assumptions used to determine the defined benefit obligation are as follows:

	2017	*2016*
Discount rate:		
(a) After-service health insurance	3.85 per cent	4.09 per cent
(b) Repatriation benefits	3.53 per cent	3.59 per cent
(c) Death benefits	3.48 per cent	3.41 per cent
(d) Workers' compensation	3.85 per cent	3.83 per cent
Health-care cost trend rates:		
(a) United States, non-Medicare plans	5.7, grading down to 3.85 per cent after 15 years	6.0, grading down to 4.5 per cent after 8 years
(b) United States, Medicare plans	5.5, grading down to 3.85 per cent after 15 years	5.7, grading down to 4.5 per cent after 7 years
(c) United States, dental plans	4.8, grading down to 3.85 per cent after 15 years	4.9, grading down to 4.5 per cent after 9 years
(d) Non-United States, Switzerland	4.0, grading down to 3.05 per cent after 10 years	4.0 per cent (flat)
(e) Non-United States, Eurozone	4.0, grading down to 3.65 per cent after 5 years	4.0 per cent (flat)
Salary scale (varies by age and staff category)	3.97–9.27 per cent	4.5–9.8 per cent
Rate of inflation	2.2 per cent	2.25 per cent
Per capita medical claim cost (varies by age)	$1,089–$16,345	$1,052–$15,419
Actuarial method	Projected unit credit method	Projected unit credit method

22.13. Other actuarial assumptions used for the valuation for after-service health insurance are: enrolment in plan and Medicare part B participation, dependants, age difference between spouses, retiree contributions, age-related increase in claims, Medicare part D retiree drug subsidy and Medicare part B premium.

22.14. Assumptions regarding future mortality are based on published statistics and mortality tables. The current rates of death underlying the values of the liabilities in the after-service health insurance and repatriation calculations are as follows:

	2017		*2016*	
Mortality rate — Active employees	*At age 20*	*At age 69*	*At age 20*	*At age 69*
Male	0.00056	0.00718	0.00065	0.00906
Female	0.00031	0.00435	0.00034	0.00645

Mortality rate — Retired employees	*2017*		*2016*	
	At age 20	*At age 70*	*At age 20*	*At age 70*
Male	0.00062	0.00062	0.00072	0.01176
Female	0.00035	0.00035	0.00037	0.00860

22.15. The rates of retirement for Professionals with 30 or more years of service hired on or after 1 January 1990 and before 1 January 2014 are as follows:

Rate of retirement: Professionals with 30 or more years of service	*2017*		*2016*	
	At age 55	*At age 62*	*At age 55*	*At age 62*
Male	0.16	0.70	0.16	0.70
Female	0.20	0.80	0.20	0.80

22.16. For active beneficiaries, an assumption was made regarding the probability of marriage at retirement:

Rate of marriage at retirement for active beneficiaries	*2017*	*2016*
Male	0.75	0.80
Female	0.75	0.50

Sensitivity analysis

22.17. Should the assumptions about the discount rate and health-care cost trends described above change, this would have an impact on the measurement of the after-service health insurance obligation as follows:

(Thousands of United States dollars)

	+1 per cent	*-1 per cent*
Effect of discount rate change on end-of-year liability	(215 024)	282 788
Effect of change in health-care cost trend rates on year-end accumulated post-employment benefit obligation	285 603	(220 876)

United Nations Joint Staff Pension Fund

22.18. The Pension Fund's Regulations state that the Pension Board shall have an actuarial valuation made of the Fund at least once every three years by the consulting actuary. The practice of the Pension Board has been to carry out an actuarial valuation every two years using the open group aggregate method. The primary purpose of the actuarial valuation is to determine whether the current and estimated future assets of the Pension Fund will be sufficient to meet its liabilities.

22.19. The financial obligation of UNDP to the Pension Fund consists of its mandated contribution, at the rate established by the General Assembly (currently at 7.9 per cent for participants and 15.8 per cent for member organizations) together with any share of any actuarial deficiency payments under article 26 of the Regulations of the Pension Fund. Such deficiency payments are only payable if and when the General Assembly has invoked the provision of article 26, following determination that there is a requirement for deficiency payments based on an assessment of the actuarial sufficiency of the Fund as of the valuation date. Each member organization shall contribute to this deficiency an amount proportionate to the total contributions which each paid during the three years preceding the valuation date.

22.20. During 2017, the Fund identified that there were anomalies in the census data utilized in the actuarial valuation performed as at 31 December 2015. As such, as an exception to the normal biannual cycle, a roll-forward of the participation data as at 31 December 2013 to 31 December 2016 was used by the Fund for its 2016 financial statements. An actuarial valuation as at 31 December 2017 is currently being performed.

22.21. The roll-forward of the participation data as at 31 December 2013 to 31 December 2016 resulted in a funded ratio of actuarial assets to actuarial liabilities, assuming no future pension adjustments, of 150.1 per cent (127.5 per cent in the 2013 valuation). The funded ratio was 101.4 per cent (91.2 per cent in the 2013 valuation) when the current system of pension adjustments was taken into account.

22.22. After assessing the actuarial sufficiency of the Fund, the consulting actuary concluded that there was no requirement, as at 31 December 2016, for deficiency payments under article 26 of the Regulations of the Fund, as the actuarial value of assets exceeded the actuarial value of all accrued liabilities under the Fund. In addition, the market value of assets also exceeded the actuarial value of all accrued liabilities as at the valuation date. At the time of preparation of the present report, the General Assembly had not invoked the provision of article 26.

22.23. During 2017, the contributions of UNDP to the United Nations Joint Staff Pension Fund amounted to $157 million (2016: $158 million). The amounts include the organizational share as well as the contributions made by the participants. Contributions due in 2018, dependent on staffing levels and changes in the pensionable remuneration, are expected to be around $159 million.

Note 23
Other liabilities

(Thousands of United States dollars)

	31 December 2017	*31 December 2016*
Current		
Unapplied deposits	5 770	3 039
Other payables	4 093	4 593
Finance lease	10	42
Total other current liabilities	**9 873**	**7 674**
Non-current		
Finance lease	–	11
Reimbursable deposits	722	761
Total other non-current liabilities	**722**	**772**
Total other liabilities	**10 595**	**8 446**

The finance lease is for office equipment in two UNDP country offices.

Note 24
Reserves

(Thousands of United States dollars)

	31 December 2016	*Movements*	*31 December 2017*
Endowment Fund	3 000	–	3 000
Operational reserve	321 968	(22 967)	299 001
Reserve for special initiatives	159	–	159
Total reserves	**325 127**	**(22 967)**	**302 160**

24.1. The Endowment Fund reserve is a contribution of $3.0 million in 1998 from the Government of Japan to strengthen the planning and managerial capacities of Palestinian institutions in order to promote sustainable socioeconomic development. Under the Fund's mechanism and implementation arrangements, the principal amount will not be available for programming until such time as the Government of Japan and/or UNDP agree to terminate the Fund. However, interest earned on the fund is available for programming.

24.2. The operational reserve was established in 1979 by the Governing Council (now the Executive Board) of UNDP to ensure adequate liquidity of UNDP by funding such reserve through a defined formula that is calculated yearly. The operational reserve is made up of the operational reserve for regular resources and the operational reserve for other resources.

24.3. At 31 December 2017, the balance in the operational reserve for regular resources was $160.0 million. At its annual session in 1999, the Executive Board approved a change of basis for the calculation of the operational reserve for regular resources, which is the sum of the following components:

(a) Income: the equivalent of 10 per cent of the average of the annual voluntary contributions received over the three most recent years, rounded to the nearest $1 million;

(b) Expenditure: the equivalent of 2 per cent of the average total annual expenditure incurred over the three most recent years, rounded to the nearest $1 million;

(c) Liability and structural: the equivalent of 10 per cent of the sum of the income and expenditure components, rounded to the nearest $1 million;

(d) Cash-flow: the equivalent of the cash needs for one month, calculated as one twelfth of the total expenditure of the most recent year, rounded to the nearest $1 million.

24.4. In addition, the Executive Board approved the establishment of an operational reserve for other resource activities. At 31 December 2017, the balance of the operational reserve for other resource activities was $114.0 million. The basis for the calculation of the operational reserve for other resources is the sum of the following components:

(a) Expenditure: the equivalent of 2 per cent of the average total annual expenditure incurred over the most recent three years under cost-sharing, trust fund and reimbursable support services and miscellaneous activities, rounded to the nearest $1 million;

(b) Liability and structural: the equivalent of one year of administrative costs, currently estimated at $30 million.

While the reserve calculation for other resources is based on cost-sharing, trust fund and reimbursable support services and miscellaneous activities, the operational reserve for other resources is only presented as part of net assets/equity for reimbursable support services and miscellaneous activities in note 6, "Segment reporting: statement of financial position as at 31 December 2017".

24.5. The reserve for special initiatives was first approved by the Executive Board in 2000 to establish a capital reserve as a charge from UNDP general resources. The remaining balance is being held to cover relocation costs such as renovations, furniture, fittings and moving costs.

Note 25
Accumulated surpluses

(Thousands of United States dollars)

	1 January 2017 (restated)	*Movements*	*31 December 2017*
Accumulated surpluses[a]	4 195 701	164 616	4 360 317
Funds with specific purposes[b]	101 983	9 210	111 193
Actuarial gains/(losses)	66 314	(229 833)	(163 519)
Changes in fair value of available-for-sale investments	269	31 181	31 450
Total accumulated surpluses	**4 364 267**	**(24 826)**	**4 339 441**

[a] The movement in accumulated surpluses of $164.616 million consists of the surplus for the year of $141.649 million and a transfer from the operational reserve of $22.967 million.

[b] The funds with specific purposes include: security; working capital; information and communications technology; United Nations Volunteers; learning; and personnel and other.

Note 26
Voluntary contributions

(Thousands of United States dollars)

	2017	*2016*
Contributions	4 936 067	4 866 492
Government contributions to local office costs	19 742	43 240
Contributions in kind	16 729	18 967
Less: returns to donors of unused contributions	(80 439)	(143 578)
Total voluntary contributions	**4 892 099**	**4 785 121**

26.1. Contributions in kind primarily comprise donated use of land and buildings of $16.6 million (2016: $17.824 million), as well as donated goods, such as computer equipment and supplies received from donors, of $0.129 million (2016: $1.143 million).

26.2. At 31 December 2017, UNDP had $1.941 billion of contribution agreements signed with donors for which revenue has not been recognized in the financial statements. That amount represents multi-year contributions due from donors (excluding contributions from programme country governments for development activities in their country offices) where revenue will be recorded in future accounting periods in accordance with UNDP revenue recognition accounting policy.

Note 27
Revenue: exchange transactions

(Thousands of United States dollars)

	2017	2016
Department of Safety and Security	90 613	90 265
Reimbursement for management and support services	53 668	59 952
United Nations Volunteers programme	501	12 099
Implementation support services fees	4 778	9 100
Payroll management services fees	8 660	8 313
Procurement handling fees	4 105	3 591
Training fees	2 385	2 534
Rental revenue	2 924	2 779
Multi-Partner Trust Fund Office administrative agent fees	7 731	7 676
Other exchange revenue	34	198
Total revenue from exchange transactions	**175 399**	**196 507**

Note 28
Investment revenue

(Thousands of United States dollars)

	2017	2016
Investment revenue	88 402	52 925
Total investment revenue	**88 402**	**52 925**

Investment revenue represents interest plus amortized discount, net of amortized premium, and dividends earned on the Programme's investment portfolio and interest earned on bank account balances.

Note 29
Other revenue

(Thousands of United States dollars)

	2017	2016
Foreign exchange gains	27 344	31 066
Common system and miscellaneous revenue[a]	50 046	34 478
General management services fees	3 134	2 476
Total other revenue	**80 524**	**68 020**

[a] Of the total amount of $50.046 million, $0.089 million represents a decrease in impairment relating to the valuation of certain non-convertible currency held by UNDP (refer to note 8), $0.149 million represents an increase in impairment relating to receivables: exchange transactions (refer to note 11) and $0.331 million represents a decrease in impairment relating to advances issued (refer to note 12).

Note 30
Expenses

(Thousands of United States dollars)

	Programme expenses[a]	*Total expenses*	*Programme expenses*	*Total expenses*
	2017	*2017*	*2016 (reclassified)*	*2016 (reclassified)*
30.1 Contractual services				
Contractual services with individuals	1 151 304	1 210 363	1 096 235	1 156 424
Contractual services with companies	773 821	784 665	628 895	643 978
United Nations Volunteers expenses for contractual services	29 374	35 199	30 519	36 508
Total contractual services	**1 954 499**	**2 030 227**	**1 755 649**	**1 836 910**
30.2 Staff costs				
Salary and wages	187 292	589 799	184 321	599 779
Pension benefits	31 457	104 545	31 393	105 154
Post-employment and termination	20 169	101 643	16 381	96 904
Appointment and assignment	10 154	23 993	8 818	23 730
Leave benefits	5 686	14 244	6 052	16 686
Other staff benefits	47 334	48 374	39 068	49 726
Total staff costs	**302 092**	**882 598**	**286 033**	**891 979**
30.3 Supplies and consumables used				
Maintenance costs for property, plant and equipment and project-related supplies	437 946	453 294	311 801	331 003
Medical, pharmaceutical and agricultural supplies	376 361	379 631	300 039	303 618
Information technology supplies and software maintenance	28 476	34 691	22 271	26 901
Information and communications technology equipment	71 564	76 703	69 119	75 606
Security and office supplies	46 036	49 766	25 387	30 465
Other consumables used	83	111	220	77
Total supplies and consumables used	**960 466**	**994 196**	**728 837**	**767 670**
30.4 General operating expenses				
Travel	183 375	214 891	173 513	206 580
Learning and recruitment	203 990	223 132	177 994	194 583
Rent, leases, utilities	87 321	157 639	74 260	158 868
Communications	84 471	112 093	100 271	123 645
Freight	35 544	36 600	33 241	34 268
Professional services	36 977	39 820	31 292	34 114
Security	18 718	33 794	17 374	33 076
Reimbursement	2 360	3 301	1 891	6 120
Contribution to jointly financed United Nations activities	4 044	13 889	5 873	14 857
Contribution to information and communications technology	1 991	4 131	2 064	4 567
Insurance/warranties	8 881	9 876	6 100	7 046

	Programme expenses[a]	*Total expenses*	*Programme expenses*	*Total expenses*
	2017	*2017*	*2016 (reclassified)*	*2016 (reclassified)*
Management service agreement fees	363	363	234	234
Miscellaneous operating expenses	220 364[b]	11 879[c]	203 341	17 975
Total general operating expenses	**888 399**	**861 408**	**827 448**	**835 933**
30.5 Grants and other transfers				
Grants	244 852	246 100	237 161	238 131
Transfers	2 056	3 356	4 243	7 284
Total grants and other transfers	**246 908**	**249 456**	**241 404**	**245 415**
30.6 Other expenses				
Sundries	20 018	24 292	16 742	20 212
Foreign exchange losses	7 008	25 710[d]	11 046	34 305
Losses on sale of fixed assets and intangible assets	2 865	4 294	2 089	2 927
Ex gratia payments[e]	–	3	–	3
Impairment	–	255[f]	–	96
Total other expenses	**29 891**	**54 554**	**29 877**	**57 543**
30.7 Depreciation and amortization				
Depreciation	5 349	16 248	5 914	15 727
Amortization	75	2 420	37	2 377
Total depreciation and amortization	**5 424**	**18 668**	**5 951**	**18 104**
30.8 Finance costs				
Bank charges	596	3 668	2 785	5 972
Total finance costs	**596**	**3 668**	**2 785**	**5 972**
Total expenses	**4 388 275**	**5 094 775**	**3 877 984**	**4 659 526**

[a] Of the total expenses, $4.388 billion represents programme expenses and the remaining $706.5 million represents development effectiveness, United Nations development coordination, management, special purpose and other. Refer to note 36.1, "Total expenses by cost classification" for details.

[b] Included in the $220.364 million, $199.687 million represents internal UNDP cost recovery, which is eliminated from total expenses.

[c] Of the total miscellaneous operating expenses, $2.707 million represents administrative service fees for United Nations agencies.

[d] Foreign exchange losses of $25.71 million include the effect of exchange rate changes on cash and cash equivalents of $10.256 million.

[e] Ex gratia payments were approved and paid by UNDP in accordance with UNDP financial regulation 23.01 and UNDP financial rule 123.01.

[f] In 2017, UNDP recognized $0.014 million as impairment relating to advances issued, $0.07 million as impairment relating to losses of cash and $0.171 million as impairment relating to advances issued that were recognized in the statement of performance in prior years.

Note 31
Financial instruments and risk management

31.1. The risk management policies of UNDP, along with its Investment Policy and Guidelines and Financial Regulations and Rules, aim to minimize potential adverse effects on the resources available to UNDP to fund its activities.

In its operations, UNDP is exposed to a variety of financial risks, including:

- Credit risk: the risk of financial loss to UNDP may arise from the failure of an entity or counterparty to meet its financial/contractual obligations to UNDP;
- Liquidity risk: the risk that UNDP might not have adequate funds to meet its obligations as they fall due;
- Market risk: the risk that UNDP might incur financial losses on its financial assets due to unfavourable movements in foreign currency exchange rates, interest rates and/or prices of investment securities.

31.2. UNDP has an Investment Committee, comprising senior management, which meets quarterly to review its investment portfolio performance and to ensure that investment decisions are in compliance with the established Investment Policy and Guidelines. The principal investment objectives as stated in the UNDP Investment Policy and Guidelines are:

- Safety: preservation of capital, provided through investing in high-quality, fixed-income securities emphasizing the creditworthiness of the issuers;
- Liquidity: flexibility to meet cash requirements through investments in highly marketable, fixed-income securities and through structuring maturities to align with liquidity requirements;
- Revenue: maximization of investment revenue within the foregoing safety and liquidity parameters.

31.3. The UNDP Financial Regulations and Rules govern the financial management of UNDP. The regulations and rules are applicable to all funds and programmes administered by UNDP and establish the standard of internal control and accountability within the organization.

31.4. In 2016, UNDP outsourced a portion of the investment management of its after-service health insurance funds. This was done in order to ensure an adequate level of investment return given the longer-term nature of the liabilities. As at 31 December 2017, this portfolio was mainly classified as available for sale. Holdings include cash and cash equivalents, equities and fixed-income securities.

31.5. The external investment managers are governed by the after-service health insurance investment guidelines. The guidelines ensure that all of the investment activities reflect the best conditions of security, accountability and social responsibility while operating in full compliance with the highest standards of quality, efficiency, competence and integrity. These guidelines are reviewed and approved on a periodic basis by the after-service health insurance investment committee.

31.6. The following tables show the value of UNDP financial assets and financial liabilities outstanding at year-end based on the IPSAS classifications adopted by UNDP.

(a) Financial assets

(Thousands of United States dollars)

	Held to maturity	*Available for sale*	*Loans and receivables*	*Fair value through surplus and deficit*	*31 December 2017 Book value*	*31 December 2016 Book value*
Cash and cash equivalents	–	–	837 339	–	837 339	794 407
Investments	4 736 245	603 399	–	–	5 339 644	5 172 270
Receivables: non-exchange transactions	–	–	136 721	–	136 721	124 085
Receivables: exchange transactions	–	–	77 584	–	77 584	47 043
Advances issued	–	–	160 723	–	160 723	201 890
Loans to governments	–	–	5 071	–	5 071	6 603
Total financial assets	**4 736 245**	**603 399**	**1 217 438**	**-**	**6 557 082**	**6 346 298**

(b) Financial liabilities classification

(Thousands of United States dollars)

	Other financial liabilities	*Fair value through surplus and deficit*	*31 December 2017 Book value*	*31 December 2016 Book value*
Accounts payable and accrued liabilities	212 637	1 188	213 825	192 838
Advances payable	31 449	–	31 449	21 273
Payables — funds held in trust	700 653	–	700 653	558 394
Funds held on behalf of donors	18 103	–	18 103	20 463
Other liabilities	10 595	–	10 595	8 446
Total financial liabilities	**973 437**	**1 188**	**974 625**	**801 414**

31.7. Held-to-maturity financial assets are carried at amortized cost. As at 31 December 2017, the market value of those assets exceeded book value by $14.426 million (2016: $(8.0) million). Available-for-sale assets are carried at fair market value based on quoted prices obtained from knowledgeable third parties. The carrying values for loans and receivables are a reasonable approximation of their fair value. As at 31 December 2017, UNDP did not have any financial assets recorded at fair value through surplus and deficit.

31.8. As at 31 December 2017, UNDP had $1.188 million in financial liabilities recorded at fair value through surplus and deficit arising from forward foreign exchange contracts in various currencies and notional amounts managed by external investment managers.

31.9. For the year ended 31 December 2017, net gains of $1.273 million related to financial assets and liabilities recorded at fair value through surplus and deficit were recognized in the statement of financial performance.

Valuation

31.10. The table below presents the fair value hierarchy of the Programme's available-for-sale financial instruments carried at fair value at 31 December 2017.

(Thousands of United States dollars)

	Level 1	*Level 2*	*Level 3*	*Total*
Available-for-sale financial assets:				
Equities	303 361	–	–	303 361
Bonds	300 038	–	–	300 038
Total	**603 399**	**–**	**–**	**603 399**

31.11. The three fair value hierarchies are defined by IPSAS based on the significance of the inputs used in the valuation as:

(a) Level 1: unadjusted quoted prices in active markets for identical assets or liabilities;

(b) Level 2: inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (as price) or indirectly (derived from prices);

(c) Level 3: inputs for assets or liabilities that are not based on observable market data (unobservable inputs).

Analysis of UNDP credit risk

31.12. UNDP is exposed to credit risk on its outstanding financial asset balances, primarily cash and cash equivalents, investments and receivables (non-exchange).

31.13. UNDP operates bank accounts in 150 countries, which exposes it to the risk of the collapse of local financial institutions. UNDP has established risk assessment criteria to assess the credit worthiness of financial institutions before new bank accounts are opened. In addition, UNDP, using zero-balance accounts, permits local offices to draw funds in United States dollars and euros from a headquarters-managed master account to periodically replenish local currency accounts. Zero-balance accounts are designed to automatically transfer excess balances to the master account for investment in short-term money market instruments. The arrangement minimizes excess balances in local bank accounts.

31.14. With regard to its financial instruments, the UNDP Investment Policy and Guidelines limit the amount of credit exposure to any one counterparty and include minimum credit quality requirements. The credit risk mitigation strategies stated in the Investment Policy and Guidelines include conservative minimum credit criteria for all issuers, with maturity and counterparty limits by credit rating. The Investment Policy and Guidelines also require ongoing monitoring of issuer and counterparty credit ratings. Permissible investments for UNDP-managed funds are limited to fixed-income instruments of sovereign, supranational, governmental or federal agencies, and banks.

31.15. UNDP utilizes credit ratings from the three leading credit rating agencies, Moody's, Standard & Poor's and Fitch, to categorize and monitor credit risk on its financial instruments. As at 31 December 2017, investments managed by UNDP were in high-quality, fixed-income instruments as shown in the table below (presented using Standard & Poor's rating convention).

Concentration by credit rating — UNDP managed investments

(Thousands of United States dollars)

31 December 2017	*AAA*	*AA+*	*AA to AA-*	*A+*	*A*	*Not rated*	*Total*
Money market instruments	99 664	79 891	234 717	135 000	210 000	722	759 994
Bonds	2 322 827	524 062	998 266	217 007	39 003	–	4 101 165
Total	**2 422 491**	**603 953**	**1 232 983**	**352 007**	**249 003**	**722**	**4 861 159**

31 December 2016	*AAA*	*AA+*	*AA to AA-*	*A+*	*A*	*Not rated*	*Total*
Money market instruments	64 878	49 738	521 163	105 000	115 000	762	856 541
Bonds	2 592 507	410 510	948 876	169 762	7 896	–	4 129 551
Total	**2 657 385**	**460 248**	**1 470 039**	**274 762**	**122 896**	**762**	**4 986 092**

Note: Excludes investments classified as cash equivalents and funds held in trust.

Concentration by credit rating — externally managed investments

(Thousands of United States dollars)

31 December 2017	*AAA*	*AA+*	*AA-*	*A+*	*A*	*BBB+*	*BBB*	*BBB-*	*United States Treasury*	*Not rated*	*Total*
Bonds	2 204	3 183	2 313	5 036	2 460	10 443	3 230	483	22 944	122 828	175 124
Total	**2 204**	**3 183**	**2 313**	**5 036**	**2 460**	**10 443**	**3 230**	**483**	**22 944**	**122 828**	**175 124**

31 December 2016	*AA+*	*AA-*	*A+*	*A*	*BBB+*	*BBB*	*BB+*	*United States Treasury*	*Not rated*	*Total*
Bonds	919	1 326	2 014	1 876	5 193	1 460	328	9 382	49 514	72 012
Total	**919**	**1 326**	**2 014**	**1 876**	**5 193**	**1 460**	**328**	**9 382**	**49 514**	**72 012**

Note: The externally managed investments are governed by the after-service health insurance investment guidelines. Not rated bonds include corporate bond funds and exchange traded funds of fixed-income investments in the amount of $108.653 million, with the remaining balance of $14.175 million comprising government bonds.

31.16. The investment management function is centralized at UNDP headquarters, and country offices are not permitted in normal circumstances to engage in investing. A country office may receive exceptional approval when conditions warrant investing locally under specified parameters.

31.17. The credit risk exposure of UNDP on outstanding non-exchange receivables is mitigated by the Financial Regulations and Rules of UNDP, which require that, for non-regular resources, expenses be incurred after receipt of funds from donors. Exceptions to incurring expenses prior to the receipt of funds are only permitted if specified risk assessment criteria with regard to the obligor are met. In addition, a large portion of the contributions receivable is due from sovereign governments and supranational agencies, including other United Nations entities (as shown in the table below) that do not have significant credit risk.

Receivables: non-exchange transactions by entity type

(Thousands of United States dollars)

	31 December 2017	*31 December 2016*
Government entities	64 038	43 581
Non-governmental entities	72 683	80 504
Total receivables: non-exchange transactions	**136 721**	**124 085**

Note: Non-governmental entities mainly comprise supranational and international entities.

31.18. The top three donors accounted for 54 per cent of the outstanding non-exchange receivable balances and comprise one multilateral agency and two donor governments as shown in the table below. Based on historical payment patterns, UNDP believes that all non-exchange receivable balances are collectable.

Non-exchange receivables: top three outstanding balances

(Thousands of United States dollars)

No.	*Balance*	*Percentage of total*	*Entity type*
1	33 225	24	Multilateral agency
2	31 002	23	Donor government
3	9 148	7	Donor government
Subtotal	**73 375**	**54**	
Grand total	**136 721**	**100**	

Analysis of UNDP liquidity risk

31.19. Liquidity risk is the risk that UNDP might be unable to meet its obligations, including accounts payable, accrued liabilities, refunds to donors and other liabilities, as they fall due.

31.20. Investments are made with due consideration of the Programme's cash requirements for operating purposes based on cash flow forecasting of future funding needs. As shown in the table below, UNDP maintains a portion of its cash and investments in cash and cash equivalents and current investments, which is sufficient to cover its commitments as and when they fall due.

Liquidity analysis

(Thousands of United States dollars)

	31 December 2017	*Percentage*	*31 December 2016*	*Percentage*
Cash balances	557 622	9	306 390	5
Cash equivalents	279 717	5	488 017	8
Total cash and cash equivalents	**837 339**	**14**	**794 407**	**13**

	31 December 2017	*Percentage*	*31 December 2016*	*Percentage*
Current investments	2 670 610	43	3 222 252	54
Non-current investments	2 669 034	43	1 950 018	33
Total current and non-current investments	**5 339 644**	**86**	**5 172 270**	**87**
Total investments, cash and cash equivalents	**6 176 983**	**100**	**5 966 677**	**100**

Note: Excludes funds held in trust; investments classified as cash equivalents have a maturity of three months or less from the date of purchase.

Composition of cash equivalents

(Thousands of United States dollars)

	31 December 2017	*31 December 2016*
Money market funds	77 691	363 027
Money market instruments	150 945	98 995
Bonds	51 081	25 995
Cash equivalents	**279 717**	**488 017**

Note: Excludes funds held in trust.

31.21. UNDP further mitigates its liquidity risk through its Financial Regulations and Rules, which prohibit offices from entering into commitments, including purchase commitments, unless a budget already exists. Spending is possible after funds are received and budgets are updated. Spending ability is constantly revised as commitments are made and expenditures incurred. Spending in the absence of receipted funds has to comply with UNDP risk management guidelines.

Analysis of market risk to UNDP

31.22. Market risk is the risk that UNDP is exposed to potential financial losses due to unfavourable movements in market prices of financial instruments including movements in interest rates, exchange rates and equity price risk.

31.23. Interest rate risk arises from the effects of market interest rates fluctuations on:

(a) Fair value of financial assets and liabilities;

(b) Future cash flows.

31.24. A portion (11.3 per cent) of the UNDP investment portfolio is classified as available-for-sale investments that are carried at fair value through net assets/equity, which expose UNDP to interest rate risk. However, a significant portion (88.7 per cent) of the portfolio is classified as held to maturity, which is not marked to market and therefore net assets and surplus/deficit reported in the Programme's financial statements are not significantly affected by changes in interest rates.

Classification of investments

(Thousands of United States dollars)

	Book value basis	*31 December 2017*	*31 December 2016*
Held-to-maturity investments	Amortized cost	4 736 245	4 615 863
Available-for-sale investments	Fair value	603 399	556 407
Total investments		**5 339 644**	**5 172 270**

31.25. UNDP invests in United States dollar-denominated floating rate debt. These debt securities have a variable coupon which periodically resets to the prevailing market rate. As at 31 December 2017, UNDP had $392.489 million (2016: $281.6 million) in outstanding floating rate fixed-income securities, with maturities ranging from three months to five years.

31.26. The table below presents the interest sensitivity of UNDP investments based on the duration of its securities. The sensitivity is limited to the fixed-income investments classified as available for sale, which are marked to market through net assets/equity, and changes in interest rates would therefore have no impact on the UNDP surplus and deficit.

Available-for-sale fixed-income investments interest rate sensitivity analysis

(Thousands of United States dollars)

		Impact on the financial statements	
31 December 2017	*Sensitivity variation*	*Net assets*	*Surplus and deficit*
300 039	100 basis point increase	(3 411)	–
300 039	50 basis point decrease	1 706	–

Note: Excludes investments classified as cash and cash equivalents.

Foreign exchange risk

31.27. The Programme's transactions are primarily denominated in United States dollars but UNDP is exposed to currency risk arising from financial assets that are denominated in foreign currency and financial liabilities that have to be settled in foreign currency.

31.28. UNDP receives donor contributions primarily in United States dollars and also in a number of major currencies, including the euro, the pound sterling, the Norwegian krone, the Canadian dollar, the Japanese yen, the Swiss franc and the Australian dollar. In addition, programme country governments make contributions mainly in their national currencies to programmes in their countries. On an ongoing basis, UNDP evaluates its need to hold cash and other financial assets in foreign currencies against its foreign currency obligations.

31.29. UNDP actively manages net foreign exchange exposure in eight major currencies against the United States dollar using foreign exchange forward and option contracts.

(a) Cash and cash equivalents, investments and receivables: non-exchange

(Thousands of United States dollars)

	United States dollar	*Euro*	*Norwegian krone*	*Other*	*31 December 2017 total*	*31 December 2016 total*
Cash and cash equivalents	437 924	122 155	55 102	222 158	837 339	794 407
Investments	5 189 360	72 673	4 925	72 686	5 339 644	5 172 270
Receivables: non-exchange	94 367	11 756	17	30 581	136 721	124 085
Total cash and cash equivalents, investments and receivables: non-exchange	**5 721 651**	**206 584**	**60 044**	**325 425**	**6 313 704**	**6 090 762**

(b) Foreign exchange sensitivity analysis

(Thousands of United States dollars)

	Currency depreciation		*Currency appreciation*	
	Surplus (deficit)	*Net assets*	*Surplus (deficit)*	*Net assets*
Euro (10 per cent change)	(19 113)	–	22 547	–
Norwegian krone (10 per cent change)	(5 499)	–	6 622	–

Note: The above figures represent the sensitivity of cash and cash equivalents, investments and receivables: non-exchange to changes in foreign exchange rates.

31.30. At 31 December 2017, UNDP held investments and cash and cash equivalents balances in several non-United States dollar currencies. Cash and cash equivalents were held in non-United States dollar currencies primarily to support local operating activities in programme countries, where a large portion of payments are made in local currency. UNDP maintains a minimum level of assets in local currencies, and, whenever possible, converts excess local currency balances in bank accounts into United States dollars.

31.31. The Programme's financial assets and financial liabilities are primarily denominated in United States dollars, thereby reducing its overall foreign currency exposure. Financial liabilities, including funds received in advance and funds held on behalf of donors, are carried in the UNDP ledger in United States dollars, although some portion may be refunded in local currency at the donor's request.

Equity price risk

31.32. In 2017, UNDP held equity investments in its externally managed portfolio of after-service health insurance funds. The table below presents the price sensitivity of equity investments to a 5 per cent change in equity prices. The sensitivity pertains to equity investments classified as available for sale, which are marked to market through net assets/equity, and changes in prices would therefore have no impact on UNDP surplus and deficit.

(Thousands of United States dollars)

		Impact on the financial statements	
31 December 2017	*Sensitivity variation*	*Net assets*	*Surplus and deficit*
303 361	5 per cent increase	15 168	–
303 361	5 per cent decrease	(15 168)	–

Note 32
Related parties

Key management personnel

32.1. The leadership structure of UNDP consists of an Executive Group of 13 members. The Executive Group is responsible for the strategic direction and operational management of UNDP and is entrusted with significant authority to execute the UNDP mandate. Collectively the Executive Group comprises four tiers: an Under-Secretary-General and Administrator (Administrator); an Under-Secretary-General (Associate Administrator); nine Assistant Secretaries-General (Assistant Administrators); a Special Adviser to the Administrator/Senior Adviser on Business Model and Processes and the Chief of Staff and Director, Office of the Administrator (ex officio).

Remuneration

(Thousands of United States dollars)

Tier	*Number of positions*	*Salary and post adjustment*	*Other entitlements*	*Total remuneration*	*After-service health insurance, repatriation, death benefit and annual leave liability*
Key management personnel	13	2 843	745	3 588	8 825
Close family members of key management personnel	1	173	–	173	285
Total	**14**	**3 016**	**745**	**3 761**	**9 110**

32.2. The remuneration paid to key management personnel includes salary, post adjustment and other entitlements as applicable in accordance with the Staff Regulations of the United Nations and the Staff Rules.

Loans

32.3. Staff advances are available to UNDP staff, including key management personnel, for specific purposes as provided for in the Staff Regulations of the United Nations. As at 31 December 2017, there were no advances issued to key management personnel and their close family members that would not have been made available to all UNDP staff.

United Nations system

32.4. UNDP is engaged in United Nations system initiatives such as joint funding arrangements (multi-donor trust funds and joint programmes) and common services arrangements. Within joint funding mechanisms, United Nations entities work together to implement activities and achieve results. Each of the participating United Nations entities assumes its share of responsibilities related to planning, implementing, monitoring and evaluating those activities.

32.5. UNDP is a co-sponsoring organization of the Joint United Nations Programme on HIV/AIDS (UNAIDS), an innovative joint effort of the United Nations family to respond in a coordinated manner on the issue of HIV/AIDS. UNDP participates in setting the financial and operating policies of the Programme Coordinating Board of UNAIDS, which is headquartered in Geneva.

Note 33
Commitments and contingencies

Open commitments

(Thousands of United States dollars)

	31 December 2017	*31 December 2016*
Property, plant and equipment	6 268	8 808
Goods	334 126	208 069
Services	263 186	165 759
Total open commitments	**603 580**	**382 636**

33.1. As at 31 December 2017, commitments of UNDP for the acquisition of various goods and services contracted but not received amounted to $603.58 million.

Lease commitments by term

(Thousands of United States dollars)

	31 December 2017	*31 December 2016*
Obligations for property leases		
Less than 1 year	67 757	65 233
1–5 years	72 339	74 109
Beyond 5 years	16 522	19 992
Total property leases obligations	**156 618**	**159 334**

(Thousands of United States dollars)

	31 December 2017	*31 December 2016*
Obligations for equipment leases		
Less than 1 year	35	64
1–5 years	45	33
Beyond 5 years	90	90
Total equipment leases obligations	**170**	**187**

33.2. The above tables represent future lease payment obligations during the contractual term of the leases. Typically, at the inception, the duration of contractual leases for premises entered into by UNDP is between 1 and 5 years.

Contingent assets

33.3. At 31 December 2017, UNDP had a contingent asset for a compound in South Sudan over which there is an ownership dispute. Owing to that dispute, UNDP has not recognized the land and buildings in the compound as property, plant and equipment. The fair value of the land and buildings was last assessed by independent valuators in 2011 at $8.9 million.

33.4. At 31 December 2017, UNDP had $1.941 billion in non-regular resources contribution agreements signed with donors for which revenue has not been recognized in the financial statements. This amount represents multi-year contributions due from donors (excluding contributions from programme country governments for development activities in their country offices), revenue from which will be recorded in future accounting periods in accordance with the Programme's revenue-recognition accounting policy. In addition, UNDP had regular resources contributions of $143.338 million pledged and subject to approval by donor governments for future periods through 2020. These contributions will be recognized in future periods when cash is received in accordance with the revenue-recognition accounting policy.

Contingent liabilities

33.5. In the normal course of operations, UNDP is subject to claims which have been categorized as: (a) corporate and commercial claims; (b) administrative law claims; and (c) other claims.

33.6. As at 31 December 2017, corporate and commercial and administrative law claims totalled $4.136 million. No impairment or allowance for loss has been recorded as the occurrence, amount and timing of outflow is not certain. UNDP does not expect the ultimate resolution of any of the proceedings to which it is party to have a significant adverse effect on its financial position, performance or cash flows.

33.7. UNDP is a partner organization with the International Computing Centre, which is based in Geneva. The memorandum of understanding between the two organizations provides for financial responsibility of both partner organizations should any third-party claim or liability arise within certain conditions. As at 31 December 2017, there were no such claims.

Note 34

Structural change

UNDP corporate restructuring began in 2014 to improve institutional effectiveness through better functional and geographic integration at headquarters and the regional level in order to meet strategic plan objectives. The movement in the provision for restructuring from 31 December 2016 to 31 December 2017 is provided below:

(Thousands of United States dollars)

	31 December 2016	*Amounts used*	*Increases*	*31 December 2017*
Provision for restructuring	147	(147)	–	–

Note 35

Events after reporting date

The reporting date for these financial statements is 31 December 2017. There have been no material events, favourable or unfavourable, that occurred between the date of the financial statements and the date when the financial statements were authorized for issue that would have had a material impact on these statements.

Note 36
Additional disclosure

36.1
Total expenses by cost classification

(Thousands of United States dollars)

	2017
Development	
Programme	4 388 275
Development effectiveness	171 059
United Nations development coordination	129 771
Management	358 625
Special purpose	63 708
Other	226 572
Elimination[a]	(243 235)
Total expenses	**5 094 775**

[a] This adjustment is required to remove the effect of internal UNDP cost recovery.

36.2
Programme expenses by executing entity/implementing partner and responsible party

The executing entity/implementing partner is the entity that has management responsibility and accountability for project implementation and results. The executing entity/implementing partner may contract with a responsible party to implement and practically deliver outputs.

36.2 (a)
Programme expenses by executing entity/implementing partner

(Thousands of United States dollars)

	Regular resources	*Cost-sharing*	*Trust funds*	*Reimbursable support services and miscellaneous activities*	*Total*
Governments	135 297	971 479	650 057	1 318	1 758 151
International non-governmental organizations	1 467	19 520	12 292	–	33 279
National non-governmental organizations	576	93 139	5 218	–	98 933
International Atomic Energy Agency	–	–	13	–	13
International Civil Aviation Organization	6	(6)	307	–	307
International Maritime Organization	–	–	855	–	855
International Telecommunication Union	–	27	–	–	27
United Nations Centre for Human Settlements	64	1 078	–	–	1 142
United Nations Institute for Training and Research	–	–	90	–	90
United Nations Office for Project Services	704	4 315	48 196	8 273	61 488
United Nations Educational, Scientific and Cultural Organization	1	–	1 581	–	1 582

	Regular resources	*Cost-sharing*	*Trust funds*	*Reimbursable support services and miscellaneous activities*	*Total*
United Nations Volunteers Programme	–	–	6	22 735	22 741
World Health Organization	–	3 703	371	–	4 074
United Nations Development Programme	208 358	2 068 735	118 279	10 221	2 405 593
Total programme expenses	**346 473**	**3 161 990**	**837 265**	**42 547**	**4 388 275**

36.2 (b)
Programme expenses by responsible party

"Responsible party" refers to the party responsible for contractual implementation and practical delivery of outputs.

(Thousands of United States dollars)

	Regular resources	*Cost-sharing*	*Trust funds*	*Reimbursable support services and miscellaneous activities*	*Total*
Governments	118 779	1 125 130	624 256	1 328	1 869 493
International non-governmental organizations	748	124 533	13 924	–	139 205
National non-governmental organizations	1 570	80 587	8 143	13	90 313
Department of Economic and Social Affairs	242	65	–	–	307
Economic Commission for Europe	–	–	16	–	16
Food and Agriculture Organization of the United Nations	10	1 966	4 072	–	6 048
International Atomic Energy Agency	–	–	13	–	13
International Bank for Reconstruction and Development	–	–	129	–	129
International Civil Aviation Organization	–	–	307	–	307
International Labour Organization	–	507	859	–	1 366
International Maritime Organization	–	–	855	–	855
International Organization for Migration	453	4 418	204	–	5 075
International Telecommunication Union	–	27	–	–	27
International Training Centre of the ILO	–	(2)	–	–	(2)
Joint United Nations Programme on HIV/AIDS	–	300	–	–	300
Other United Nations entities	–	–	211	–	211
United Nations Capital Development Fund	929	–	53	–	982
United Nations Children's Fund	241	11 184	–	–	11 425
United Nations Convention to Combat Desertification	–	–	238	–	238
United Nations Educational, Scientific and Cultural Organization	–	225	1 610	–	1 835
United Nations Entity for Gender Equality and the Empowerment of Women	76	6 205	–	–	6 281
United Nations Environment Programme	–	472	74	–	546
United Nations High Commissioner for Refugees	–	406	–	–	406
United Nations Human Settlements Programme	(7)	3 136	16	–	3 145
United Nations Industrial Development Organization	76	487	–	–	563

	Regular resources	*Cost-sharing*	*Trust funds*	*Reimbursable support services and miscellaneous activities*	*Total*
United Nations Institute for Training and Research	–	49	529	–	578
United Nations Joint Human Rights Office	109	463	–	–	572
United Nations Office for Project Services	192	6 097	50 301	8 273	64 863
United Nations Office for the Coordination of Humanitarian Affairs	–	78	–	–	78
United Nations Office on Drugs and Crime	60	106	–	–	166
United Nations Population Fund	–	7 141	(34)	–	7 107
United Nations Volunteers Programme	–	–	43	22 890	22 933
World Food Programme	–	1 359	–	–	1 359
World Health Organization	–	3 854	758	–	4 612
World Tourism Organization	–	656	–	–	656
United Nations Development Programme	222 995	1 782 541	130 688	10 043	2 146 267
Total programme expenses	**346 473**	**3 161 990**	**837 265**	**42 547**	**4 388 275**

36.3
Programme expenses by geographical region

(Thousands of United States dollars)

	Africa	*Arab States*	*Asia and the Pacific*	*Europe and Commonwealth of Independent States*	*Latin America and the Caribbean*	*Global and others*	*Total*
Expenses							
Contractual services	370 071	288 749	659 563	167 692	335 965	132 459	1 954 499
Staff costs	84 363	52 479	57 617	14 940	24 884	67 809	302 092
Supplies and consumables used	355 400	230 381	74 659	142 069	140 923	17 034	960 466
General operating expenses	286 297	159 797	158 001	70 364	149 135	64 805	888 399
Grants and other transfers	18 411	48 427	18 727	22 476	83 343	55 524	246 908
Other expenses	5 658	10 262	1 748	1 968	8 484	1 771	29 891
Depreciation and amortization	1 920	611	1 561	632	414	286	5 424
Finance costs	706	(444)	130	419	(241)	26	596
Total	**1 122 826**	**790 262**	**972 006**	**420 560**	**742 907**	**339 714**	**4 388 275**

36.4
Reimbursable support services and miscellaneous activities

36.4 (a)
Statement of financial position

(Thousands of United States dollars)

	Reimbursable support services	*Management service agreements*	*United Nations Volunteers programme*	*Special activities*	*Junior Professional Officers programme*	*Reserve for field accommodation*	*Government cash counterparts contributions*	*Total*
Assets								
Current assets								
Cash and cash equivalents	87 265	5 026	11 976	9 430	4 138	1 933	2 326	122 094
Investments	267 992	15 436	36 752	28 961	12 707	5 938	7 146	374 932
Receivables: non-exchange transactions	199	963	–	4 802	656	–	–	6 620
Receivables: exchange transactions	271	–	196	73	–	63	–	603
Advances issued	280	–	49	1 962	–	–	–	2 291
Loans to governments	–	–	–	–	–	507	–	507
Inventories	869	–	5	–	–	–	–	874
Other current assets	1	–	–	1	–	2	–	4
Total current assets	**356 877**	**21 425**	**48 978**	**45 229**	**17 501**	**8 443**	**9 472**	**507 925**
Non-current assets								
Investments	267 992	15 436	36 752	28 961	12 707	5 938	7 146	374 932
Loans to governments	–	–	–	–	–	4 564	–	4 564
Property, plant and equipment	69 972	–	1 510	7 631	–	9 620	–	88 733
Intangible assets	8 466	–	804	–	–	–	–	9 270
Other non-current assets	17	–	–	–	–	–	–	17
Total non-current assets	**346 447**	**15 436**	**39 066**	**36 592**	**12 707**	**20 122**	**7 146**	**477 516**
Total assets	**703 324**	**36 861**	**88 044**	**81 821**	**30 208**	**28 565**	**16 618**	**985 441**

36.4 (a)
Statement of financial position (continued)

(Thousands of United States dollars)

	Reimbursable support services	*Management service agreements*	*United Nations Volunteers programme*	*Special activities*	*Junior Professional Officers programme*	*Reserve for field accommodation*	*Government cash counterparts contributions*	*Total*
Liabilities								
Current liabilities								
Accounts payable and accrued liabilities	7 933	26	6 614	1 628	11 611	7	–	27 819
Advances payable	140	–	–	375	18	–	–	533
Funds received in advance and deferred revenue	7 334	–	–	876	–	18	–	8 228
Funds held on behalf of donors	–	–	–	102	–	–	–	102
Employee benefits	19 619	–	16	15	–	–	–	19 650
Other current liabilities	1 084	–	10	48	387	38	–	1 567
Total current liabilities	**36 110**	**26**	**6 640**	**3 044**	**12 016**	**63**	–	**57 899**
Non-current liabilities								
Funds received in advance and deferred revenue	7 471	–	–	–	–	–	–	7 471
Employee benefits	481 107	–	–	–		–	–	481 107
Total non-current liabilities	**488 578**	–	–	–	–	–	–	**488 578**
Total liabilities	**524 688**	**26**	**6 640**	**3 044**	**12 016**	**63**	–	**546 477**
Net assets/equity								
Reserves	114 001	–	–	–	–	25 000	–	139 001
Accumulated surpluses	64 635	36 835	81 404	78 777	18 192	3 502	16 618	299 963
Total net assets/equity	**178 636**	**36 835**	**81 404**	**78 777**	**18 192**	**28 502**	**16 618**	**438 964**
Total liabilities and net assets/equity	**703 324**	**36 861**	**88 044**	**81 821**	**30 208**	**28 565**	**16 618**	**985 441**

36.4 (b)
Statement of financial performance

(Thousands of United States dollars)

	Reimbursable support services	*Management service agreements*	*United Nations Volunteers programme*	*Special activities*	*Junior Professional Officers programme*	*Reserve for field accommodation*	*Total*
Revenue							
Voluntary contributions	66 710	(5 553)	20 159	54 506	16 968	–	152 790
Revenue: exchange transactions	72 456	–	8 439	92 692	–	583	174 170
Investment revenue	6 518	499	742	95	–	–	7 854
Other revenue	266 044	2 467	4 753	5 274	–	–	278 538
Total revenue	**411 728**	**(2 587)**	**34 093**	**152 567**	**16 968**	**583**	**613 352**

	Reimbursable support services	*Management service agreements*	*United Nations Volunteers programme*	*Special activities*	*Junior Professional Officers programme*	*Reserve for field accommodation*	*Total*
Expenses							
Contractual services	41 825	701	16 798	14 869	–	23	74 216
Staff costs	237 142	–	7 152	92 788	12 441	–	349 523
Supplies and consumables used	15 361	6 576	2 121	4 738	1	67	28 864
General operating expenses	85 512	513	8 267	31 314	3 115	32	128 753
Grants and other transfers	1 855	–	209	(92)	–	–	1 972
Other expenses	5 162	460	363	392	1	5	6 383
Depreciation and amortization	9 320	–	331	704	–	281	10 636
Finance costs	404	–	14	37	–	–	455
Total expenses	**396 581**	**8 250**	**35 255**	**144 750**	**15 558**	**408**	**600 802**
Surplus/(deficit) for the year	**15 147**	**(10 837)**	**(1 162)**	**7 817**	**1 410**	**175**	**12 550**

36.5
Cost-sharing: government, third-party and South-South cooperation cost-sharing: statement of financial performance

(Thousands of United States dollars)

	Third-party cost-sharing	*Government cost-sharing*	*South-South cooperation*	*Total*
Revenue				
Voluntary contributions	2 238 946	1 021 869	17 000	3 277 815
Revenue: exchange transactions	186	937	–	1 123
Investment revenue	7 965	23 959	–	31 924
Other revenue	1 953	2 035	1	3 989
Total revenue	**2 249 050**	**1 048 800**	**17 001**	**3 314 851**
Expenses				
Contractual services	809 430	431 633	529	1 241 592
Staff costs	152 210	18 686	33	170 929
Supplies and consumables used	587 963	276 145	3 931	868 039
General operating expenses	519 392	142 343	392	662 127
Grants and other transfers	122 349	70 017	104	192 470
Other expenses	15 798	8 137	2	23 937
Depreciation and amortization	2 464	334	–	2 798
Finance costs	277	(179)	–	98
Total expenses	**2 209 883**	**947 116**	**4 991**	**3 161 990**
Surplus/(deficit) for the year	**39 167**	**101 684**	**12 010**	**152 861**
Net assets/equity				
Closing net assets/equity as at 31 December 2016	1 943 479	824 938	–	2 768 417
Closing net assets/equity as at 31 December 2017	**1 982 646**	**926 622**	**12 010**	**2 921 278**

36.6 (a)

Top 5 trust funds: statement of financial position

(Thousands of United States dollars)

	Global Environmental Facility	*Law and Order Trust Fund for Afghanistan*	*Multilateral Fund for the Implementation of the Montreal Protocol*	*UNDP Thematic Trust Fund on Environment*	*International Commission Against Impunity in Guatemala*
Assets					
Current assets					
Cash and cash equivalents	61 750	35 186	14 750	5 739	878
Investments	189 529	108 043	45 304	17 625	2 698
Receivables: non-exchange transactions	20	–	596	–	179
Receivables: exchange transactions	124	–	6	1	–
Advances issued	12 628	–	269	127	95
Inventories	5	–	–	–	–
Other current assets	–	–	–	40	–
Total current assets	**264 056**	**143 229**	**60 925**	**23 532**	**3 850**
Non-current assets					
Investments	189 529	108 043	45 304	17 625	2 698
Property, plant and equipment	2 312	1 585	82	20	–
Total non-current assets	**191 841**	**109 628**	**45 386**	**17 645**	**2 698**
Total assets	**455 897**	**252 857**	**106 311**	**41 177**	**6 548**
Liabilities					
Current liabilities					
Accounts payable and accrued liabilities	6 391	564	24	4	–
Advances payable	5 174	25	8	1 401	–
Funds held on behalf of donors	79	–	–	–	–
Employee benefits	1	–	1	–	–
Other current liabilities	1	–	–	1	–
Total current liabilities	**11 646**	**589**	**33**	**1 406**	–
Total liabilities	**11 646**	**589**	**33**	**1 406**	–

36.6 (a)

Top 5 trust funds: statement of financial position (continued)

	Global Environmental Facility	*Law and Order Trust Fund for Afghanistan*	*Multilateral Fund for the Implementation of the Montreal Protocol*	*UNDP Thematic Trust Fund on Environment*	*International Commission Against Impunity in Guatemala*
Net assets/equity					
Accumulated surpluses	444 251	252 268	106 278	39 771	6 548
Total net assets/equity	**444 251**	**252 268**	**106 278**	**39 771**	**6 548**
Total liabilities and net assets/ equity	**455 897**	**252 857**	**106 311**	**41 177**	**6 548**

36.6 (b)
Top 5 trust funds: statement of financial performance

(Thousands of United States dollars)

	Global Environmental Facility	*Law and Order Trust Fund for Afghanistan*	*Multilateral Fund for the Implementation of the Montreal Protocol*	*UNDP Thematic Trust Fund on Environment*	*International Commission Against Impunity in Guatemala*
Revenue					
Voluntary contributions	397 446	210 409	40 534	366	13 267
Investment revenue	5 405	2 539	1 192	567	72
Other revenue	1 470	–	679	–	5
Total revenue	**404 321**	**212 948**	**42 405**	**933**	**13 344**
Expenses					
Contractual services	215 552	302 637	25 740	6 805	221
Staff costs	24 560	4 192	2 255	1 461	7 333
Supplies and consumables used	44 647	2 698	2 161	144	513
General operating expenses	93 906	21 038	5 938	4 081	1 112
Grants and other transfers	41 668	–	50	1 434	–
Other expenses	2 631	8	70	202	49
Depreciation and amortization	256	222	10	3	–
Finance costs	192	6	–	1	–
Total expenses	**423 412**	**330 801**	**36 224**	**14 131**	**9 228**
Surplus/(deficit) for the year	**(19 091)**	**(117 853)**	**6 181**	**(13 198)**	**4 116**

36.7 (a)
Funding windows: statement of financial position

(Thousands of United States dollars)

	Sustainable development and poverty eradication	*Governance for peaceful and inclusive societies*	*Climate change and disaster risk reduction*	*Emergency development response to crisis and recovery*
Assets				
Current assets				
Cash and cash equivalents	3 533	3 585	3 433	1 846
Investments	10 850	11 007	10 543	5 668
Receivables — exchange transactions	1	–	–	–
Advances issued	–	6	–	4
Total current assets	**14 384**	**14 598**	**13 976**	**7 518**
Non-current assets				
Investments	10 850	11 007	10 542	5 668
Property, plant and equipment	–	14	–	13
Total non-current assets	**10 850**	**11 021**	**10 542**	**5 681**
Total assets	**25 234**	**25 619**	**24 518**	**13 199**

	Sustainable development and poverty eradication	*Governance for peaceful and inclusive societies*	*Climate change and disaster risk reduction*	*Emergency development response to crisis and recovery*
Liabilities				
Current liabilities				
Accounts payable and accrued liabilities	40	231	–	7
Advances payable	–	–	–	200
Total current liabilities	**40**	**231**	–	**207**
Total liabilities	**40**	**231**	–	**207**
Net assets/equity				
Accumulated surpluses	25 194	25 388	24 518	12 992
Total net assets/equity	**25 194**	**25 388**	**24 518**	**12 992**
Total liabilities and net assets/equity	**25 234**	**25 619**	**24 518**	**13 199**

36.7 (b)
Funding windows: statement of financial performance

(Thousands of United States dollars)

	Sustainable development and poverty eradication	*Governance for peaceful and inclusive societies*	*Climate change and disaster risk reduction*	*Emergency development response to crisis and recovery*
Revenue				
Voluntary contributions	24 995	19 411	6 217	11 915
Investment revenue	22	239	63	84
Other revenue	–	(9)	–	–
Total revenue	**25 017**	**19 641**	**6 280**	**11 999**
Expenses				
Contractual services	415	3 192	374	1 089
Staff costs	49	635	33	158
Supplies and consumables used	56	808	107	131
General operating expenses	388	2 211	139	356
Grants and other transfers	50	707	–	229
Other expenses	5	106	3	2
Depreciation and amortization	–	2	–	3
Finance costs	2	2	–	5
Total expenses	**965**	**7 663**	**656**	**1 973**
Surplus/(deficit) for the year	**24 052**	**11 978**	**5 624**	**10 026**

36.8
All trust funds established by the United Nations Development Programme: schedule of financial performance

(Thousands of United States dollars)

Name of the trust fund	*Net assets 31 December 2016*	*Revenue*	*(Expenses)*	*Closing net assets 31 December 2017*
Fund manager: UNDP Africa				
African Peer Review Mechanism of the New Partnership for Africa's Development	813	(41)	6	778
Belgium Trust Fund for Support to the Elections Project in the Democratic Republic of the Congo	6	(6)	–	–
Belgium Trust Fund for Trade Capacity Development for Poverty Reduction and Human Development for Sub-Saharan Africa	12	(2)	(5)	5
Canadian International Development Agency/UNDP Trust Fund to Support "Recensement général de la population et de l'habitat" in Senegal	16	(16)	–	–
Comoros transitional arrangement	(1)	1	–	–
EEC Trust Fund for Election Observation Mission to Nigeria	(2)	2	–	–
EEC Trust fund for Support to the National Institute of Statistics of Rwanda	7	(3)	(4)	–
EEC Trust fund for Support to the project d'appui au cycle electoral en Guinee-Bissau, 2008–10	(3)	–	3	–
EEC: 2005 Census Support Initiatives in Nigeria	467	(465)	(2)	–
EEC: Appui à la stratégie nationale de lutte antimine: appui au démarrage de Centre de Lutte contre les Mines en Casamance	(10)	–	–	(10)
EEC: Appui aux Elections Législatives 2007 (phase 1)	5	–	–	5
EEC: Capacity support for sustainable management of energy resources with the Economic Community of West African States and the West African Economic and Monetary Union	63	(63)	–	–
EEC: Programme d'appui a la bonne gouvernance au Tchad	212	(55)	(157)	–
EEC: Support for deepening democracy in the United Republic of Tanzania	35	(35)	–	–
EEC: Support for the Election Observation Mission to Nigeria in April 2007	214	(214)	–	–
EEC: Support for the implementation of the integrated drylands development programme	3	–	–	3
EEC: Supporting Citizen Access to Justice in Mozambique	(203)	–	203	–
EEC: Transfer of Knowledge through Expatriate Nationals in Mali	253	(212)	(42)	(1)
European Commission: Joint Donor Basket Fund to Support Nigeria's 2007 Elections	2 562	(2 562)	–	–
Finland Trust Fund for National Technical Cooperation Assessment and Programme Activities	57	(56)	(2)	(1)
Fonds fiduciaire du Programme des Nations Unies pour le développement concernant l'organisation pour l'harmonisation en Afrique du droit des affaires	(60)	60	–	–
Fourth Summit of the African, Caribbean and Pacific Heads of State and Government — Mozambique	1	(1)	–	–
Justice and Security Trust Fund for Liberia	1 173	8	(810)	371
Support for capacity-building for the National Demining Institute in Mozambique	7	–	(5)	2

Name of the trust fund	*Net assets 31 December 2016*	*Revenue*	*(Expenses)*	*Closing net assets 31 December 2017*
Trust Fund with Norway for Support for Governance in Africa	313	(313)	–	–
UNDP Trust Fund for Angola	26	(26)	–	–
UNDP Trust Fund for Assistance to Refugee-Related Development Projects in Africa	7	(6)	(1)	–
UNDP Trust Fund for Namibia	–	(9)	–	(9)
UNDP Trust Fund for Receipt of Payments by Users of the African Project Development Facility	1	(1)	–	–
UNDP Trust Fund for Rwanda	2	(1)	(1)	–
UNDP Trust Fund for the Mozambique Mine Clearance Programme	266	3	(4)	265
UNDP Trust Fund for the United Nations Educational and Training Programme for Southern Africa	486	5	(88)	403
UNDP Trust Fund to Combat Poverty and Hunger in Africa	111	(102)	(9)	–
UNDP/Belgium Trust Fund for Support to the Electoral Process in South Africa	45	(45)	–	–
UNDP/Norway Trust Fund for Assistance to the Electoral Process in Mozambique	(371)	–	371	–
UNDP: "Appui au processus électoral en Guinée"	3	–	–	3
Total UNDP Africa	**6 516**	**(4 155)**	**(547)**	**1 814**
Fund manager: UNDP Arab States				
Arab Human Development Report	21	34	(10)	45
EC-UNDP: Joint electoral assistance project in Yemen	(113)	(49)	162	–
EEC Trust Fund for Djibouti for the project Réinsertion des déplacés à travers la (ré)construction des logements détruits et endommagés dans les zones affectées par le conflit	1	(1)	–	–
EEC Trust fund for Interim Disarmament, Demobilization and Reintegration Programme in the Sudan	1	(1)	–	–
EEC Trust fund for Providing Operational and Logistical Support to the Office of the Quartet Representative	(11)	10	–	(1)
EEC/Sudan: Post-Conflict Community-based Recovery and Rehabilitation Programme	(1)	14	14	27
EEC: Programme of Assistance to the Palestinian People Governance Strategy Group Coordinator	(2)	2	–	–
EEC: Sudan: Capacity Development for Good Aid Management	(1)	1	–	–
EEC: Sudan: Promotion of Equality, Tolerance and Peace through the Dissemination of the Comprehensive Peace Agreement and of the Transitional Legal Framework in Southern Sudan	7	(9)	2	–
Information and Communication Technology Trust Fund for Egypt	810	30	(34)	806
Integrated Waste Management for the olive-oil pressing industries in Lebanon, Syria and Jordan	–	(81)	81	–
Support to Iraq reconstruction	–	25	(25)	–
Trust Fund for Poverty Alleviation in the Arab Region	(22)	35	(14)	(1)
UNDP: Trust Fund for the Programme of Assistance to the Palestinian People	15 491	2 053	(9 111)	8 433
Total UNDP Arab States	**16 181**	**2 063**	**(8 935)**	**9 309**

Name of the trust fund	*Net assets 31 December 2016*	*Revenue*	*(Expenses)*	*Closing net assets 31 December 2017*
Fund manager: UNDP Asia/Pacific				
Australian Development Assistance Bureau/UNDP Programme Trust Fund	48	(48)	–	–
EEC: Support provincial governance strengthening programme in Solomon Islands	37	(37)	–	–
EEC: Support the justice system — activating village courts in Bangladesh	16	–	(16)	–
Law and Order Trust Fund for Afghanistan	370 120	212 948	(330 801)	252 267
Trust Fund for Support to the Full Implementation of the Convention on Cluster Munitions in the Lao People's Democratic Republic within the Framework of the Vientiane Declaration on Aid Effectiveness	1 107	180	(948)	339
UNDP/Republic of Korea Trust Fund	519	(347)	–	172
UNDP/Republic of Korea Trust Fund in Support of the Tumen River Area Development Programme	780	613	(402)	991
Total UNDP Asia Pacific	**372 627**	**213 309**	**(332 167)**	**253 769**
Fund manager: UNDP Bureau for Policy and Programme Support				
Capacity 2015 Trust Fund	14	–	(14)	–
Capacity 21 Trust Fund	(15)	15	–	–
EC/UNDP Collaboration to advance the post-crisis needs assessment and early recovery agendas I	–	–	3	3
EC/UNDP: Collaboration to advance the post-crisis needs assessment and early recovery agendas II	4	(7)	3	–
EEC: ACE Electoral Knowledge Network: Practitioner's Network	1	–	(1)	–
Forest Carbon Partnership Facility	11 931	17 398	(7 875)	21 454
Global Capacity Development Facility	53	–	(49)	4
Green Climate Fund	1 350	37 359	(6 163)	32 546
Integrated Framework Trust Fund for Trade-related Technical Assistance to Least Developed Countries: window 1	9	(1)	(9)	(1)
Integrated Framework Trust Fund for Trade-related Technical Assistance to Least Developed Countries, window 2	16	(2)	(14)	–
Multilateral Fund for the Implementation of the Montreal Protocol	100 099	42 404	(36 225)	106 278
Netherlands: Trust Fund for Special Action Programme for Public Administration and Management	34	3	(37)	–
Trust Fund for the Global Environmental Facility	463 342	404 321	(423 413)	444 250
Trust Fund to Combat Desertification and Drought	2 359	(1 360)	(454)	545
UNDP Energy [illegible]	637	12	(52)	597
UNDP Trust fund for Support to Capacity Development for Reform	2	(2)	–	–
UNDP: Thematic Trust Fund for Crisis Prevention and Recovery	20 935	(189)	(7 709)	13 037
UNDP: Thematic Trust Fund for Democratic Governance	5 754	1,225	(3 293)	3 686
UNDP: Thematic Trust Fund on Energy for Sustainable Development	380	2	(245)	137
UNDP: Thematic Trust Fund on Environment	52 970	933	(14 132)	39 771
UNDP: Thematic Trust Fund on Gender	415	5	(108)	312

Name of the trust fund	*Net assets 31 December 2016*	*Revenue*	*(Expenses)*	*Closing net assets 31 December 2017*
UNDP: Thematic Trust Fund on Information and Communication Technology	404	1	–	405
UNDP: Thematic Trust Fund on Poverty Reduction for Sustainable Development	1 213	11	(642)	582
UNDP: Thematic Trust Fund on HIV/AIDS	3	–	(5)	(2)
UNDP: Trust Fund for Crisis Post-conflict and Recovery Situations	406	(391)	(15)	–
UNDP: Trust Fund for Public-Private Partnerships for the Urban Environment	99	1	(75)	25
UNDP: Trust Fund for Sustainable Social Development, Peace and Support to Countries in Special Situations	2 389	31	(176)	2 244
UNDP: Trust Fund for World Summit on Social Development	3	–	(3)	–
Total UNDP Bureau for Policy and Programme Support	**664 807**	**501 769**	**(500 703)**	**665 873**
Fund manager: UNDP Bureau of External Relations and Advocacy				
Fonds d'affectation spécial français	5	(10)	6	1
Republic of Korea — UNDP Sustainable Development Goals Trust Fund	2 076	1 682	(2 059)	1 699
UNDP Trust Fund for International Partnership	101	416	(220)	297
UNDP Trust Fund for Private Sector in Development	186	1 013	(516)	683
UNDP/Italy: Trust Fund for Anti-Poverty Partnership Initiatives	42	(1)	(31)	10
UNDP-Republic of Korea: Millennium Development Goals Trust Fund for Programming Fund-based Cooperation	578	10	(27)	561
Total UNDP Bureau of External Relations and Advocacy	**2 988**	**3 110**	**(2 847)**	**3 251**
Fund manager: UNDP Europe/Commonwealth of Independent States				
EEC: Small and Medium Enterprise Development in the Southeastern Anatolia Region — Turkey	9	(9)	–	–
Russian Federation — UNDP Trust Fund for Development	9 482	22 689	(4 473)	27 698
UNDP Trust Fund for Urgent Human Needs in Uzbekistan	110	1	–	111
Total UNDP Europe/Commonwealth of Independent States	**9 601**	**22 681**	**(4 473)**	**27 809**
Fund manager: UNDP Geneva				
UNDP Trust Fund for Innovative Partnerships with National Governments, Local Authorities, Private Sector, Non-governmental organizations, Academic Institutions and Foundations	7 125	301	(1 431)	5 995
Total UNDP Geneva	**7 125**	**301**	**(1 431)**	**5 995**
Fund manager: UNDP Latin America and the Caribbean				
EEC: Ecological and financial sustainable management of the Guiana Shield Eco-region, Guyana	107	(107)	–	–
International Commission Against Impunity in Guatemala	2 433	13 344	(9 229)	6 548
Programme for Democratic Development in Latin America	–	(4)	4	–
UNDP/Spain: Trust Fund for Integrated and Inclusive Development	1 995	1 646	(1 430)	2 211
Total UNDP Latin America and the Caribbean	**4 535**	**14 879**	**(10 655)**	**8 759**

Name of the trust fund	*Net assets 31 December 2016*	*Revenue*	*(Expenses)*	*Closing net assets 31 December 2017*
Fund manager: UNDP Technical Cooperation among Developing Countries				
India, Brazil and South Africa Facility	11 289	2 148	(3 510)	9 927
Perez-Guerrero Trust Fund for Economic and Technical Cooperation among Developing Countries	8 272	339	(417)	8 194
UNDP Trust Fund for the Promotion of South-South Cooperation	6 282	8 762	(2 982)	12 062
Total UNDP Technical Cooperation among Developing Countries	**25 843**	**11 249**	**(6 909)**	**30 183**
Fund manager: UNDP Bureau for Policy and Programme Support/UNDP Bureau for Management Services				
Climate Change and Disaster Risk Reduction	18 893	6 280	(656)	24 517
Emergency Development Response to Crisis and Recovery	2 967	11 998	(1 974)	12 991
Governance for Peaceful and Inclusive Societies	13 411	19 641	(7 664)	25 388
Sustainable Development and Poverty Eradication	1 142	25 017	(965)	25 194
Total UNDP Bureau for Policy and Programme Support/UNDP Bureau for Management Services	**36 413**	**62 936**	**(11 259)**	**88 090**
Grand total trust funds	**1 146 636**	**828 142**	**(879 926)**	**1 094 852**

Abbreviations: EC, European Commission; EEC, European Economic Commission; UNDP, United Nations Development Programme.